




# Social & Environmental Responsibility Report 2004



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## Explanation of symbols in the report

-  Reference to a page within this document
-  External web link
-  Link to external document (PDF, MS Word, etc.)



# The IKEA Group

Designers at work  
at IKEA of Sweden,  
Älmhult, Sweden

# This is the IKEA Group

**The IKEA vision is to create a better everyday life for the many people.**

**Our business idea is 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 them.**

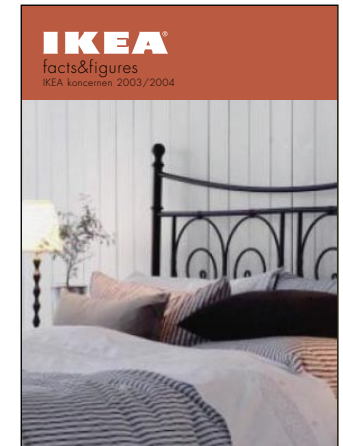
- Sales for the IKEA Group for the financial year 2004 (1 September 2003–31 August 2004) totalled 12.8 billion euros.
- The IKEA Group has around 84,000 co-workers and business operations in 44 countries.
- There are a total of 202 IKEA stores in 32 countries/territories (as per 31 August 2004). The IKEA Group itself has a total of 179 stores in 23 countries. The other 23 stores are owned and operated by franchisees outside the IKEA Group in 14 countries/territories. 365 million customers visited IKEA stores during the last year.

- Product development: IKEA of Sweden in Älmhult, Sweden, develops the IKEA range. The current range consists of around 10,000 products.
- Purchasing: 1,500 suppliers in 55 countries, all of them but Swedwood independent suppliers. The Swedwood Group is the IKEA industrial group, operating 32 industrial units.
- IKEA has 43 trading service offices in 33 countries.
- IKEA has 27 distribution centers in 16 countries.

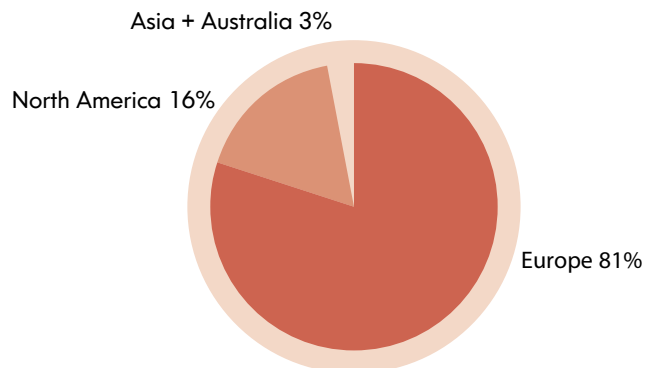
## Additional information

The brochure Facts & Figures gives basic information about the IKEA Group, including figures for the financial year 2004, from September 2003 until 31 August 2004. Available in 17 languages.

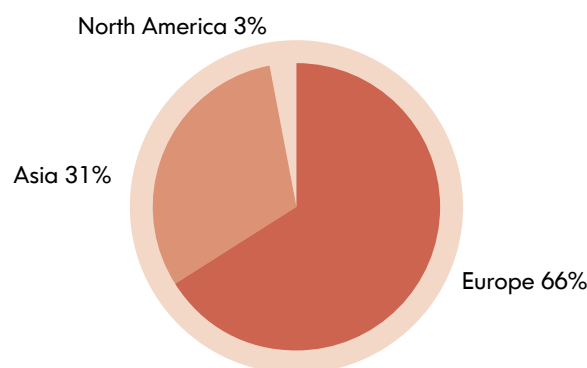
- 📄 You can download your own version of Facts & Figures from [http://www.ikea-group.ikea.com/corporate/about\\_ikea](http://www.ikea-group.ikea.com/corporate/about_ikea)
- 📄 For a full list of IKEA stores, please visit [http://www.ikea-group.ikea.com/corporate/about\\_ikea/ikea\\_group\\_stores.html](http://www.ikea-group.ikea.com/corporate/about_ikea/ikea_group_stores.html)



Sales by region



Purchasing by region



Top five sales countries

Germany	20%
United Kingdom	12%
USA	11%
France	9%
Sweden	8%

Top five purchase countries

China	19%
Poland	12%
Sweden	8%
Italy	7%
Germany	6%

# Report scope

This is the second report on the IKEA Group's work in the area of social and environmental responsibility. The reporting period is the IKEA Group's financial year 2004, 1 September 2003 until 31 August 2004.

The purpose is to give information to our stakeholders.

The report is an important tool to follow our step by step development. The key performance indicators (KPIs) are chosen to support our work and help us to adjust when necessary. We are only at the beginning of our reporting and the framework is still under development, e.g. Human Resources is an area that will be included in next year's report. The sustainability reporting guidelines by GRI have been a source of inspiration for us.

For a summary on KPIs, please see page 7.

# Additional information

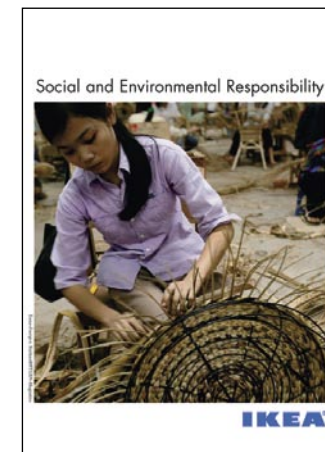
The brochure "Social and Environmental Responsibility" gives overall information and is available in 17 languages.

📄 You can download your own version of "Social and Environmental Responsibility" from  
[www.ikea-group.ikea.com/corporate/responsible/brochure.html](http://www.ikea-group.ikea.com/corporate/responsible/brochure.html)

## Contact addresses

Please feel free to get in touch with us through our local press contacts. We appreciate your feedback. You will find contact addresses at:

📄 [www.ikea-group.ikea.com/corporate/press/press\\_contacts.html](http://www.ikea-group.ikea.com/corporate/press/press_contacts.html)





## Summary of Key Performance Indicators

Distribution centre  
in Älmhult, Sweden

# Comment on KPI

IKEA uses key performance indicators as important tools to help us in achieving continuous improvements. As we are at the beginning of our reporting on social and environmental responsibility, we haven't been able to provide all the KPIs for FY03 or FY04. We also lack figures for products and materials (except for Food and Catalogue), but as our work with this progresses, we will be able to report more figures.

All key performance indicators are per 31 August 2004, unless otherwise stated.

	FY03	FY04	Page
<b>Responsibility in the supply chain</b>			
<b>IWAY approval 2004-03-31</b>			<b>24</b>
Europe	51%	54%	
Asia	11%	14%	
Americas	45%	46%	
Total	32%	36%	
<b>Average IWAY fulfilment per 31 March 2005</b>			<b>24</b>
Europe		96%	
Asia		75%	
Americas		96%	
Total		88%	
<b>Number of audits by IKEA Trading</b>			<b>24</b>
Europe	555	743	
Asia	523	613	
Americas	42	52	
Total	1,120	1,408	
<b>Number of audits by IKEA CMG</b>			<b>25</b>
Europe	68	22	
Asia	112	21	
Americas	6	0	
Total	186	43	

	FY03	FY04	Page
<b>Number of 3rd party audits</b>			<b>23</b>
Europe		0	
Asia		6	
Americas		1	
Total	137	7	
<b>Third party monitoring by KPMG on child labour in South Asia</b>			<b>31</b>
		calendar year 2004	
		587	
<b>Focus area: forestry</b>			
<b>IWAY approval</b>			<b>34</b>
	97%	96%	
(checked through FTS)			
<b>Total amount of timber used (m³ of logs)</b>			<b>34</b>
	5.5 million	6 million	
<b>Products &amp; materials</b>			
<b>Food</b>			<b>40</b>
Organic products in Swedish Food Market	0	2	
<b>Catalogue</b>			
<b>Suppliers with certified management system</b>			<b>41</b>
Certified paper suppliers	100%		
Certified artwork/repro, gravure and offset suppliers	32%		
Paper (use of resources)	65,000 tonnes; 116 million catalogues		
Fibres from certified forestry	74%		
Recycled fibres	1.7%		

	FY03	FY04	Page
<b>Transport</b>			
<b>Contribution to CO<sub>2</sub> emissions within transporting operations (Europe)</b>			<b>43</b>
Customer journeys	54%	57%	
Fuel use	3%	2%	
Freight transport	28%	26%	
Electricity consumption	15%	15%	
Total	100%	100%	
<b>Reduction of CO<sub>2</sub> emissions per transported m<sup>3</sup>/kilometre</b>			
Europe	-1%	-4%	
<b>Modes of transport (Booked transport volume, Europe)</b>			<b>44</b>
Road	78%	76%	
Sea	3%	3%	
Rail	10%	10%	
Combined transport (road + rail)	9%	11%	
Total	100%	100%	
	<b>FY03</b>	<b>FY04</b>	<b>44</b>
Inbound filling rate (supplier to warehouse, Europe)	57%	57%	
Outbound filling rate (warehouse to store, Europe)	54%	57%	
<b>Fulfillment of environmental demands on suppliers</b>			<b>45</b>
Road		80%	
Rail		96%	
Sea		88%	
<b>Customer journeys</b>			<b>46</b>
IKEA stores served by efficient public transports	77%	88%	
Customers using public transport	9.9%	9.9%	

	FY03	FY04	Page
<b>Environmental work in IKEA units</b>			
<b>Training</b>			<b>48</b>
Basic environmental training/e-learning			
Stores	9,650	11,808	
Warehouses		appr. 2,000	
Total		13,808	
<b>Waste recycled, reclaimed or used in energy production</b>			<b>49</b>
Stores, total	73%	77%	
Europe	77%	85%	
North America	57%	54%	
Asia	59%	73%	
Warehouses, total	78%	80%	
<b>Recovery, reuse</b>			<b>49</b>
Stores Europe	58%	65%	
Stores North America	63%	66%	
Stores Asia and Russia	52–60%	56–70%	
<b>Energy consumption/m<sup>3</sup></b>			<b>50</b>
Stores, electricity	-1%	-2%	
Stores, heating	-3%	-1%	
Warehouses, electricity	+8%	-3.9%	
Warehouses, heating		-11.2%	
<b>Renewable energy</b>			<b>51</b>
Stores, electricity	21%	30%	
Warehouses, total energy	1.9%	18.7%	



**Questions and answers**  
with Anders Dahlvig,  
IKEA Group President

# “Many things remain to be done”

Q&A with Anders Dahlvig

Offering low prices at the same time as you demonstrate a sense of social responsibility and show due concern for the environment is a tough challenge. But it is essential to achieve the vision IKEA has “to create a better everyday life for the many people”.

“We’re moving in the right direction, but we must remain humble,” says Anders Dahlvig.

## **Is it possible for IKEA to be the good company that shows respect for people and the environment at the same time as IKEA sells products at low prices?**

Yes! It isn’t always easy. There aren’t always quick-fix solutions. But there’s no conflict between good business and good companies. By making demands on suppliers with regard to environmental and social responsibility and by helping them meet these demands, our business relationship contributes to a better everyday life for the people manufacturing IKEA products. Better working conditions lead to more efficient production and better productivity. In this way suppliers can produce at a lower cost and IKEA can sell at lower prices in its stores.

## **You have a very strong forestry policy and strict requirements. How can you be sure that all the wood you use originates from sustainable forestry?**

We can never guarantee that all the wood we use comes from sustainable forestry, but we can guarantee that we will continue working hard to make sure this is the case. 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, and by putting these demands on all the wood suppliers, we contribute to a sustainable way of handling the forest. But tracing such huge quantities of timber can be a complicated task in some parts of the world, and there we still have some work to do.

## **Are you terminating your business relationships with suppliers who do not fulfil the requirements in your Code of Conduct?**

Our ambition is always to provide support to our suppliers, so they can fulfill all our demands. As long as the supplier has the right attitude and shows improvements, we will normally not terminate the contract. However, if the supplier does not show any progress we need to stop our business relationship.

## **To what degree do your products contain recyclable material?**

The majority of the materials used in our products are recyclable. There are, however, other issues in this matter, involving the recycling possibilities on the markets. Often there is a lack of recycling facilities, the facilities are insufficient. Another factor is that the customers are not always motivated to recycle the products, since it often is cheaper to throw them away. We know though that these matters are being revised in many countries, in particular the recycling responsibility.

## **Global warming is an emerging issue and IKEA is transporting goods long distances. What actions will you take to reduce your CO<sub>2</sub> emissions?**

This is one of the most challenging areas for us as we are fortunate enough to be able to continuously grow our business. To stay competitive on the market we have to apply a global sourcing strategy which often means transporting goods long distances.

We have put requirements on all service providers for several years, e.g. to improve the status of engines and fuel efficient driving. Internally we work with issues like filling rates and efficient packaging solutions. To really make a difference for the future we’ll also look into new innovative solutions within this field.

**IKEA often talks of taking “many small steps forward”. Isn’t this merely another way of saying that the work is proceeding too slowly?**

No, I don’t think it is. One of the strengths of the IKEA culture is that we are very focused. We don’t try to do everything at once. That is the way IKEA has been built up over the years, and we adopt the same approach when it comes to issues concerning our social and environmental responsibilities. We know how difficult it is to change minds and break habits – both in trade and industry and in society at large – but we believe that progress can be made and goals can be reached by moving forward step by step and concentrating our efforts on one thing at a time.

**What are the biggest challenges for IKEA as far as increased social responsibility and environmental protection are concerned?**

The environmental impact of our transport requirements is a huge challenge. We’re doing all we can to pack more products into every shipment and to increase our use of rail transport. IKEA customers drive to our stores, so we need to be better at creating the right conditions for more of them to use public transport when they visit us. On the social side, the top priority is to create good conditions for our suppliers’ employees in countries where human rights are still in their infancy. One thing is clear. We still have a great deal to do.

A photograph of two male workers in a wood processing factory. They are wearing blue t-shirts, blue overalls, and large red earplugs. The worker in the foreground is also wearing yellow gloves and is smiling while working with a large wooden beam. The background shows industrial machinery and stacks of wood.

## **Social & environmental responsibility at IKEA**

Co-workers at a  
Swedwood factory  
in Lubawa, Poland

# Low price but not at any price

## Social and environmental responsibility at IKEA

Low prices are the cornerstone of the IKEA vision, business idea and concept. There must never be the slightest doubt that we take a responsible approach to offering good design and quality at the best possible price.

IKEA wants its products to have the minimum possible impact on the environment. Products shall be manufactured in a socially responsible manner. All suppliers must, within a specified period of time, follow the IKEA code of conduct, “The IKEA Way on Purchasing Home Furnishing Products” (IWAY). Child labour is not tolerated, working conditions must be acceptable, and suppliers must adopt a responsible attitude towards the environment.

IKEA’s work with social and environmental issues is a continuous process that will never end. Many things remain to be done and we take many small steps to achieve our goal.

### The IKEA vision and business idea encourage social and environmental responsibility

*“To create a better everyday life for the many people.”*

The IKEA vision was first formulated in 1976. It is now natural for us to refer “the many people”, not only our customers, but also the environment, IKEA co-workers and the employees who work 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.”*

The IKEA business idea is about economical use of resources. Cost-consciousness is essential in order to be able to sell home furnishings at low prices and reduce environmental impact at the same time. It means striving towards using raw materials efficiently, minimising waste and reusing resources. Packing products in flat-packs helps to keep costs, as well as the environmental impact of transportation as low as possible.

### Turning the vision into reality

It is the co-workers at IKEA who can turn the IKEA vision and business idea into reality. This is reflected in our human resource idea:

*“To give down-to-earth, straightforward people the possibility to grow, both as individuals and in their professional roles, so that together we’re strongly committed to creating a better everyday life for ourselves and our customers.”*

The IKEA culture is based on a clear and distinctive set of values which support our work with social and environmental issues.

### Doing more with less

Ever since IKEA was founded in 1943, the company has tried hard to avoid wasting resources – everything from natural resources to other resources such as time and money.

### Daring to be different

Being different isn’t an end in itself, but the tradition that IKEA has cultivated of always questioning how and why things are the way they are, often opens up new avenues of approach for reaching our goal. One example is the pioneering way in which IKEA approached manufacturers in Central and Eastern Europe and Asia to find good quality products at a low price. Close cooperation with suppliers, together with IKEA’s own distribution chains, has resulted in cost-effective production and distribution.

### **Humility and criticism**

Humility is about respect: respect for co-workers and their opinions, and respect for suppliers and their skills. Being humble is about being able to learn from our own mistakes as well as those of others. It is about admitting mistakes and putting them right – and being able to accept constructive criticism.

### **IKEA learns by listening**

A willingness to listen to what other people know and have learned through experience has paved the way for years of cooperation and partnership between IKEA and various non-profit organisations. These include Greenpeace, World Wide Fund for Nature (WWF), Save the Children and the United Nations Children's Fund UNICEF. The purpose behind these relationships is to increase knowledge within IKEA, and, in some cases, to work together on selected projects.

### **Honesty is the best policy**

The concept “honest IKEA” that is implicit in our communication with our customers should also apply to our relationships with suppliers. Honesty is essential when IKEA wants to enjoy long-lasting, close relationships with its customers and suppliers.

# A natural part of daily business

## Social and environmental responsibility at IKEA

IKEA's ambition for its work with social and environmental issues is to make it an integrated and natural part of daily business.

### **In our work of taking social and environmental responsibility we have decided to prioritise these areas:**

- The IKEA Way on Purchasing Home Furnishing Products, IWAY, including the focus areas preventing child labour and promoting responsibly managed forests.
- 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 distribution centres and stores.

Operational responsibility for social and environmental issues lies with the people who are responsible for each of the various IKEA countries and business units. This is to ensure that social and environmental issues are natural part of daily business.

A group known as SECO – the Social and Environmental Coordination Group – is coordinating work in this area. This group, chaired by the manager of the Group Staff for Social & Environmental Affairs, includes people from various business units within IKEA.

### **Training**

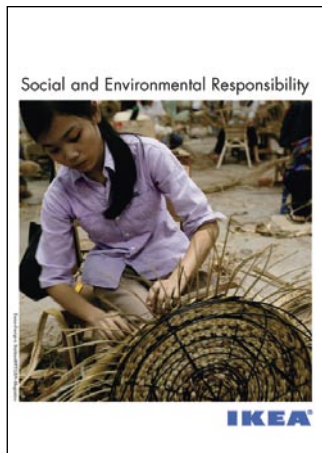
All new co-workers get basic training on social and environmental issues and attend training courses dealing with these issues.

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

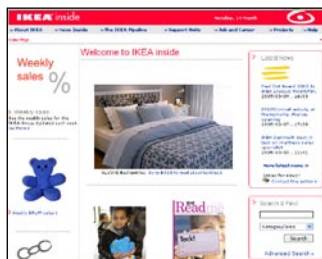
About 75 percent of all IKEA co-workers work in the stores. During 2004 some 11,800 co-workers (21 percent of the total number of store employees) received training. Approximately 2,000 of the co-workers at the distribution centres received training.

## Creating awareness and knowledge

IKEA aims at keeping all co-workers informed about its social and environmental responsibility. The goal is to create awareness and knowledge, leading to more and more engaged co-workers.



The brochure “**Social & Environmental Responsibility**” gives an overview of IKEA’s work in the area of social and environmental responsibility.




**IKEA inside** is the IKEA intranet, a network of web sites within the IKEA Group of companies.

There is a site about Social & Environmental Affairs, which presents updated information.



**Readme** is a co-workers’ magazine for the IKEA Group. The aim of the magazine is to contribute to a strong sense of togetherness among all IKEA co-workers and to increase the individual co-worker’s knowledge of IKEA as a whole. It regularly covers social and environmental issues.



## Co-operation and dialogue with stakeholders

Women in a self-help  
group from the UNICEF  
project in India.

It is essential for IKEA and our business to know our stakeholders. We need to know what they expect from us, get feedback on what we are doing and what we should be doing. Our main stakeholders are customers, co-workers, suppliers, NGOs and authorities.

## Measuring stakeholder's confidence

To collect feedback and input from stakeholders, IKEA regularly carries out market research in the form of Market Capital, which is a tool to monitor and follow up each retailer's implementation of the IKEA Concept. It is also used to monitor how well the IKEA Concept works in each market. The results describe market performance, both on store level and on the whole market/country-level. The research is carried out every third year, and is undertaken on an ongoing basis, which means that the result for one specific question is comparable once every third year. For some years the survey has included a question about stakeholder confidence. During the last three years, a statement saying that IKEA is a company concerned about the local community, shows that between 35 and 58% agree.

As for the co-workers confidence in IKEA, an internal survey is conducted via the Intranet, the results of which will be ready in June 2005.

Every three years since 1993, a supplier survey has been conducted with all the current IKEA suppliers. All purchasing countries participate, and it is conducted anonymously by a third party, in order to create openness in the answers and secure the result. The aim of the survey is to get feedback on strengths and weaknesses and how we can improve our work. The last survey was translated into 17 languages and had a 66% response rate. It showed among other things that 92% of the suppliers think that IKEA takes social and environmental responsibility.

Another tool we use to collect feedback from our stakeholders is the Customer Satisfaction Index, CSI, which is a survey done twice a year to investigate customer satisfaction with the IKEA stores. It provides an international benchmark and ensures that customer satisfaction issues are regularly addressed.

For a number of years IKEA has been in contact with other companies, trade unions, UN organisations, NGOs, authorities etc. on social and environmental issues. The purpose is to increase and, in some cases, to work together with external partners on selected projects.

## **BLICC – Business Leaders’ Initiative on Climate Change**

One of the most difficult and complex environmental problems facing the world today is the change in climate caused by increased emissions of carbon dioxide and other greenhouse gases. In 2000, IKEA together with The Body Shop initiated the BLICC program (Business Leaders’ Initiative on Climate Change). The aim of the BLICC program is to teach member companies to measure, report and reduce emissions of carbon dioxide.

Companies in the BLICC program have committed to actively take on the task of reducing carbon dioxide emissions. It is hoped that this initiative will inspire more companies to take action.

 Read the latest BLICC report, including IKEA's total carbon dioxide emissions on [www.respecteurope.com](http://www.respecteurope.com)

## **Business for Social Responsibility, BSR**

IKEA is a member of Business for Social Responsibility, BSR. BSR is an international non-profit organisation which, since 1992, has supported companies in developing their work on issues related to ethical values, human rights and the environment.

 Read more about BSR on [www.bsr.org](http://www.bsr.org)

## **Greenpeace**

Greenpeace and IKEA do not collaborate directly on any projects, but since many years do engage in a dialogue, mainly on the subject of forestry.

 Read more about Greenpeace on [www.greenpeace.org](http://www.greenpeace.org)

## **International Federation of Building and Wood Workers**

In May 1998 IKEA signed an agreement with the International Federation of Building and Wood Workers (IFBWW), which is a Global Union Federation (GUF). In December 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 IFBWW meet twice a year to exchange experiences on working conditions and social responsibility.

 Read more about IFBWW on [www.ifbww.org](http://www.ifbww.org)

## **Save the Children**

Save the Children and IKEA have been working together for several years, mainly on issues relating to child labour. Save the Children helped IKEA to formulate a special IKEA code of conduct to address the problem of child labour.

IKEA has, among other things, contributed to projects in Kosovo, where International Save the Children has helped to rebuild nursery schools, repair classrooms and support teacher training.

 Read more about Save the Children on [www.savethechildren.net](http://www.savethechildren.net)

### UNICEF

IKEA has supported UNICEF programs around the world for more than 10 years.

IKEA stores support UNICEF through the sales of UNICEF greeting cards, together with national fundraising and promotional activities.

For many years UNICEF and IKEA have had a dialogue on issues related to child labour. In August 2000, IKEA and UNICEF initiated a child rights project focusing on the prevention and elimination of child labour in northern India, currently covering 500 villages with a population of more than one million.

Since 2003, IKEA supports a five-year immunisation programme targeting 140,000 infants and 150,000 mothers-to-be in 3,000 Indian villages.

📖 Read more about UNICEF projects in India on page 32

In autumn 2002, IKEA introduced the teddy bear IKEA PS BRUM. Over a period of two years, IKEA will donate 2 euros per sold teddy bear to UNICEF. As per August 2004, IKEA stores had sold 473,000 IKEA PS BRUM. The Right to Play projects in Uganda and Angola, helping affected children to recover from armed conflicts, have thereby received 946,000 euros.

📖 Read more on

[www.ikea-group.ikea.com/corporate/responsible/projects](http://www.ikea-group.ikea.com/corporate/responsible/projects)

📖 Read more about UNICEF at [www.unicef.org](http://www.unicef.org)

Girls practise handwriting in Luanda, Angola as part of the Right to Play project together with UNICEF.



### WWF

Cooperation with WWF, the global conservation organisation, focuses mainly on forestry issues. The co-operation consists of several projects within four main areas: the spread of information and education, supporting certification, responsible forest management and promoting legal compliance.

📖 Read more about the work IKEA is doing with WWF on page 35

📖 Read more about WWF on [www.panda.org](http://www.panda.org)



## Responsibility in the supply chain

Co-workers at an IKEA  
supplier in Vietnam

# The IKEA Code of Conduct: The IKEA Way on Purchasing Home Furnishing Products (IWAY)

## **IKEA products must be manufactured in a responsible way**

IKEA believes that good working conditions and the protection of the outside environment at our suppliers is a prerequisite for doing good business. Our code of conduct, “The IKEA Way on Purchasing Home Furnishing Products” (IWAY), was introduced in 2000.

IKEA purchases from approximately 1,500 suppliers in 55 countries. IKEA’s own industrial group, Swedwood, operates 32 industrial units.

## **IKEA’s code of conduct “The IKEA Way on Purchasing Home Furnishing Products” (IWAY), consists of three documents:**

- “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)

↑ To download and print out these documents, please go to [www.ikea-group.ikea.com/corporate/responsible/conduct.html](http://www.ikea-group.ikea.com/corporate/responsible/conduct.html)

## **IWAY is based on international conventions and declarations**

The IKEA code of conduct 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.

## **IWAY Council**

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

On the next page you can read IKEA’s code of conduct.

## The IKEA code of conduct

"The IKEA Way on Purchasing Home Furnishing Products" (IWAY) defines what suppliers can expect from IKEA and what IKEA requires from its suppliers in terms of legal requirements, working conditions, child labour, environment and forestry management.

### Start-up requirements

Potential IKEA suppliers – prior to starting up a business relationship with IKEA – must fulfill the start-up requirements:

- no forced or bonded labour
- no child labour
- no wood from intact natural forests or high conservation value forests
- suppliers delivering IKEA products containing solid wood, veneer, plywood and layer glued wood must ensure a questionnaire (Forest Tracing System) is completed.

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

### 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 regarding 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 compensate 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 collective bargaining,
- accept any form of mental or physical disciplinary action, including harassment.

### Environment and Forestry

At IKEA, we shall always 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, if possible, from sources that are well managed and preferably independently certified as such.

#### Suppliers must not:

- use or exceed the use of substances forbidden or restricted in the IKEA list of "Chemical Compounds and Substances",
- use wood originating from natural parks, nature reserves, intact natural forests or any areas with officially declared high conservation values, unless certified.

The management at the 43 trading service offices have the responsibility for the compliance of IKEA's IWAY demands in the 55 purchasing countries. Thereby ensuring that social and environmental issues are integrated into daily business.

## IKEA auditors

In total IKEA has around 80 (full or part time) auditors at the trading service offices.

The auditor's task is to support the suppliers, including to agree upon action plans for improvements as well as to explain the requirements, perform monitoring and consultation visits and to offer and execute training.

The IWAY auditor informs the supplier of a forthcoming visit and prepares the inspection, which takes one to two days to carry out on site.

The auditor covers a checklist of approximately 90 detailed criteria on working conditions, including child labour, on the environment and on wooden merchandise.

## Corrective actions

In the event of non-compliance, 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, responsible person and timelines for each non-compliance to be rectified.

The IWAY auditors then follow up that the supplier has completed the necessary corrective actions according to the approved action plan and timelines.

During FY04, non compliance with our code of conduct, was the main reason for terminating the business with 10 suppliers. Our code of conduct was one of several reasons for terminating the business with another 39 suppliers.

### Number of IKEA audits

	FY03	FY04
Europe	555	743
Asia	523	613
Americas	42	52
Total	1,120	1,408

### IKEA suppliers\* that are IWAY approved by IKEA Trading

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

	31 March 2004	FY04 (31 August 2004)
Europe	51%	54%
Americas	45%	46%
Asia	11 %	14%
Total	32%	36%

\* Including IKEA's own industrial group Swedwood

### Average IWAY fulfillment of the 90 criteria

Europe	96%
Asia	75%
Americas	96%
Total	88%

## Approval of IWAY

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

IKEA auditors will perform regular re-audits of IWAY approved suppliers – as a minimum – every two years to make

sure the IKEA supplier maintains his IWAY approved status. However, all Asian trading service offices have decided to do this more frequently, e.g. once a year or every six months.

### The “Compliance and Monitoring Group”

IKEA is concerned that the same standards are followed throughout the organisation. The “Compliance and Monitoring Group” (CMG), a part of IKEA group staff Social and Environmental Affairs, is responsible for internal auditing of the compliance work worldwide. The group consists of three people and will be extended with two more during calendar year 2005.

The “Compliance and Monitoring Group” trains and supports the auditors at the trading service offices as well as 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 be informed about local laws and standards. And it 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).

The third party audits are to a large extent conducted every other year. FY04 was a year with a low number of third party audits. FY05 will in contrast be a year with a high number of audits.

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

#### Number of audits by IKEA CMG

	During 2000–2003	FY04
Europe	68	22
Asia	112	21
Americas	6	0
<b>Total</b>	<b>186</b>	<b>43</b>

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

#### Number of 3<sup>rd</sup> party audits

	During 2000–2003	FY04
<b>Total</b>	<b>137</b>	<b>7</b>

The third party audits are to a large extent conducted every other year. FY04 was a year with a low number of of third party audits. FY05 will in contrast be a year with a high number of audits.

# Challenges to IWAY

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 19 areas.

The main purpose of this diagram is to show that most suppliers are in compliance with a majority of the issues. The remaining issues point at the big challenges facing IKEA. Many of the non compliance issues will take time to solve, in some

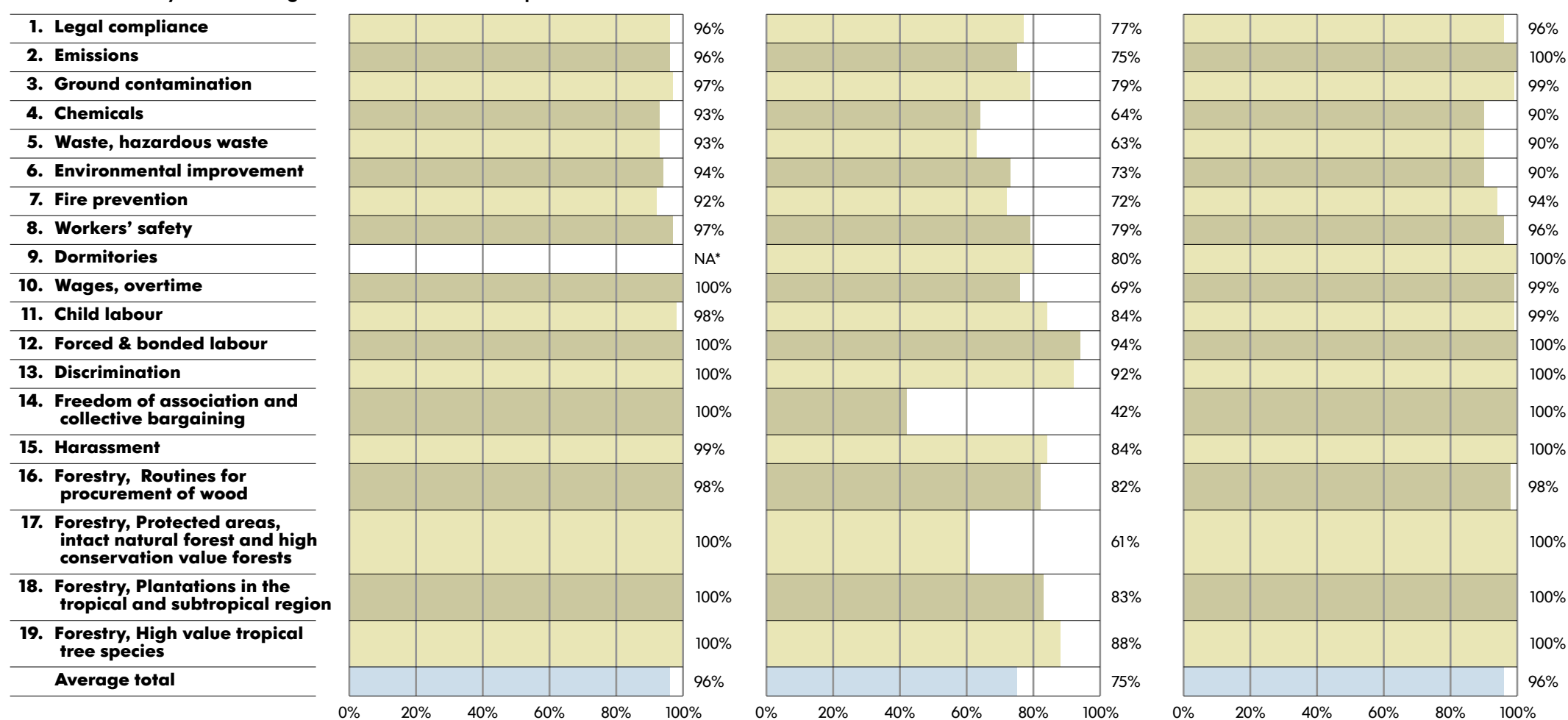
cases a fundamental change to society must take place before we will see major improvements.

The majority of the suppliers fulfill most of the 90 criteria in IWAY. An average IKEA supplier fulfills approx. 90% of the requirements. 36% of IKEA suppliers fulfill all the 90 criteria in IWAY. Most of the violations to IWAY occur in a few areas.

The average IWAY fulfillment are per 31 March 2005.

Responsibility  
in the supply chain

## IWAY fulfillment by IKEA Trading audits



\*Not applicable

## Comments on the challenges to IWAY

Our basic rule is that all suppliers shall follow national laws. Some countries have poor implementation of their laws, and there can be different interpretations locally etc. The IWAY demands, though, are not limited to the requirements of national law, and the demands are the same worldwide.

The areas where the majority of the violations to IWAY compliance can be found are handling of chemicals, storage of waste and fire prevention – which are concerns on an international perspective. Other problem areas are wages, overtime and compensation for overtime, 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. When it comes to fire prevention and waste, the problem is more related to lack of commitment from the authorities, than how difficult it really is to attend the problem.

## What is IKEA doing to improve this?

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

## Topics in the common violation areas

### Chemicals:

- The storage of chemicals can be inadequate and/or in a way that is unsafe to the employees.
- There can be a shortage of education and lack of safety information around chemicals and how to handle them.

### Waste:

- The storage of waste can be insufficient.
- The sorting of waste can lack routines, often due to the infrastructure in the country. The result can be, for instance, that hazardous waste is mixed with non-hazardous waste.

### Fire prevention:

- Fire prevention equipment may be inadequate: generally they have too few fire-extinguisher and/or they aren't functioning.
- Sometimes the supplier hasn't marked where the emergency and fire exits are in the building.
- Fire alarms may be missing in the building, and/or they are not functioning.
- There may be a lack of fire drills among the employees.

### Wages and overtime:

- Often employees have no contracts of employment, or the contracts are inadequate.
- There may be a lack of social insurances according to the stipulated demands.
- Time registration is seldom correct and often manipulated.
- Overtime is not being registered.
- Overtime compensation is not paid according to legal demands.

### **Freedom of association and collective bargaining:**

Upholding IWAY with respect to the issue of freedom of association is a challenge, e.g. Chinese law prohibits independent labour organising.

### **Child labour:**

- The non-compliance concerning child labour is mainly about documents not being in order. Child labour is not common at IKEA suppliers.

📖 Please read more about child labour on page 30.

### **Forestry:**

- There can be difficulties when tracing the material that has been sent from a sub-supplier to the supplier, especially when crossing the country-border between Russia and China.

### **Sub-contractors**

IKEA states in IWAY that suppliers must make sure that their sub-contractors follow this code. Today IKEA audits only its suppliers, but we are in the process of starting up limited auditing also of sub-contractors. This will however only be when sub-contractors have a substantial part of the production of an IKEA product. It would not be realistic to believe we could monitor all 20,000 sub-contractors in a responsible manner.

### **Training**

Training is an important part of IKEA's 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 in other areas than the trading service offices, e.g. product development and retail. (responsible: "Compliance and Monitoring Group").
- Training for new auditors (responsible: Trading and "Compliance and Monitoring Group").
- Training for experienced auditors (responsible: Trading and "Compliance and Monitoring Group").
- Training for co-workers at the trading service offices. (responsible: Trading )
- Information about IWAY for new staff at the trading services offices (responsible: Trading)

#### **External**

- Introduction trainings for new suppliers (responsible: Trading)
- Training and workshops for new and existing suppliers (responsible: Trading)

# Improving supplier standards

Responsibility  
in the supply chain

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 that share our commitment to promote good practices, and that want to grow and develop together with IKEA.

In this way, we can contribute to developing suppliers towards more competitive production, a high level of working conditions, and reduced environmental impact. Being long term it makes great sense to implement standards for working conditions and environment at our suppliers. 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.

## Development project in China

IKEA has partnered Impactt, a UK-based organisation specialising in improving labour standards, in a project focusing on reducing overtime working in a sustainable way.

The aim of the project is to find ways to reduce the need for excessive overtime hours whilst maintaining appropriate wage levels.

This is achieved by assisting factories to raise productivity, improve human resources management and communications.

Impactt first started working on a similar project in 2001 and has, to date, worked with a total of 16 factories (including IKEA suppliers) in a number of series of overtime projects. The current IKEA project, which was initiated in February 2004 and focuses on 5 IKEA suppliers in different areas of China, is scheduled for completion in May/June 2005.



Supplier in Northern China, after having improved the safety environment for the co-workers

## Moving in the right direction

**A supplier in northern China, who has been a supplier to IKEA for 10 years, is part of the Impactt project. The factory has over 500 employees and approximately 70% of its production volume is supplied to IKEA.**

An IWAY audit was conducted just prior to the project and showed many problems, including 55 non-compliances.

Some of the high priority issues to deal with were:

- Getting the factory to accurately record working hours
- Enabling all workers to receive at least the local minimum wage
- Improving conditions and hygiene in dormitories, toilets and washing facilities
- Installing a fire alarm system etc.

Many of the non-compliances were at management level, and the project gave the supplier the opportunity to enhance its systems and problem-solving skills.

Since the project started, two additional IWAY audits have been carried out, one of which was attended by representatives from the International Federation of Building and Wood Workers (IFBWW). The IWAY audits have shown that the number of non-compliances has significantly decreased during the year. Still, the supplier needs to deal with some issues that must be addressed long-term, such as a further reduction of working hours and an insurance plan for all employees. However, participating in the Impactt project, has enabled the supplier to move significantly in the right direction.

# Focus area: child labour

Responsibility  
in the supply chain

## IKEA does not accept child labour

Child labour is an unaccepted reality in certain countries. IKEA is aware of this and also of the complexity of the problem. IKEA works actively to prevent child labour and does not accept child labour among its suppliers and their sub-contractors.

## The IKEA Way on preventing child labour

There is a special child labour code of conduct, "The IKEA Way on Preventing Child Labour" (more information to the right).

IKEA supports the United Nations Convention on the Rights of the Child (1989), which defines the basic principle always to put 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 ages, and the ILO Convention number 182 (1999) concerning the worst forms of child labour.

## 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 its work complies 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 with child labour issues and social projects in South Asia, with particular emphasis on children's rights.

## The IKEA code of conduct on child labour

The IKEA code of conduct, "The IKEA Way on Purchasing Home Furnishing Products" (IWAY) introduced in 2000, addresses the issue of child labour.

📖 Read more about the IKEA code of conduct on page 23

"The IKEA Way on Preventing Child Labour" specifically addresses this issue and includes the following criteria:

- Suppliers must accept IKEA demands to take the appropriate measures to ensure that no child labour occurs on their own production premises or those of their sub-contractors.

- Each supplier must agree to provide lists of all places of production (including those at the supplier's sub-contractors) and allow IKEA co-workers and representatives of an independent third party, as and when commissioned to do so by IKEA, to carry out unannounced visits at any time.

📄 To download and print out "The IKEA code of conduct" and "The IKEA Way on Preventing Child Labour", please go to [www.ikea-group.ikea.com/corporate/responsible/conduct.html](http://www.ikea-group.ikea.com/corporate/responsible/conduct.html)

## Co-operation with various partners

The complexity of the child labour issue requires input and influence from many different parties in order to achieve a sustainable solution. A consistent approach and long-term efforts are essential to tackle the root causes of child labour. Thus creating the broad-based support that is necessary for enduring improvements.

For many years, IKEA has experienced the importance of close co-operation with international organisations like UNICEF and Save the Children. And constantly raising the issue of child labour when visiting the suppliers.

## Monitoring

Auditing of child labour is included in the IWAY compliance system.

Child labour is encountered most frequently in South Asia, therefore IKEA has assigned KPMG to monitor all suppliers by carrying out unannounced audits of suppliers and their sub-contractors in Bangladesh, India and Pakistan.

## In the best interests of the child

If child labour is encountered on any production premises, IKEA requires the supplier to implement a corrective action plan, taking the child's best interests into consideration.

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 for children, such as educational opportunities.

Corrective actions are monitored by IKEA, for example through visits to the school the child attends. If corrective action is not implemented within an agreed timeframe, or if repeated violations occur, IKEA will terminate all business with the supplier concerned.

## South Asia

Child labour is encountered most frequently in South Asia. The widespread production apparatus that is typical for the home-based industry in South Asia makes it impossible for IKEA to provide a watertight guarantee that no child at any time is involved in the production of an IKEA product.

During FY04, two cases of child labour has been encountered in India.

**Number of third party monitoring on child labour in South Asia**  
(conducted by KPMG)

<b>2004</b>
587

## China

In China child labour presents a different kind of concern. In China it's compulsory with 9 years of schooling. Children are allowed to start school at the age of 6, and some will thus finish school at the age of 15. Despite the fact that Chinese law states that children are not allowed to work until they are sixteen years old, some parents send their children to work in factories directly after finishing school.

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

During FY04, 11 cases of child labour has been encountered in China.

### Child rights project in India together with UNICEF

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

The project includes 500 villages and approximately 1.3 million people will benefit from the project. Directly, around 75,000 children who otherwise would receive no schooling will be educated.

Another aspect of the project is women’s self-help groups. By putting aside small sums of money, the women create their own fund so they do not have to seek help from unscrupulous lenders when they need to pay for medicines, a wedding, or want to start their own business. This helps to break down vicious circle of debt that forces parents to put their children to work.

There is also a vaccination program under the auspices of UNICEF and the World Health Organisation (WHO). During a five-year period 140,000 infants and 150,000 mothers-to-be in 3,000 villages, will be inoculated against serious diseases. Illness in the family often leads to financial difficulties, which can force children into work. In this way vaccinations, too, help prevent child labour.

Read more on

[www.ikea-group.ikea.com/corporate/responsible/projects](http://www.ikea-group.ikea.com/corporate/responsible/projects)



Women in self-help groups in Uttar Pradesh, India, learning how to create their own funds in order to avoid money lenders.



Children in an alternative learning center, ALC, in a village in Uttar Pradesh, India. The children get their first schooling experience in the ALCs, so called “bridge schools”, where they get education and support preparing them to later join mainstream schools. The time they spend in the ALCs can differ depending on the child’s individual needs.



A two days old child is being vaccinated, Uttar Pradesh, India.

## Timber for IKEA must come from responsibly managed forests

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% 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 solid wood products sold by IKEA comes from 45 countries.

IKEA imposes strict rules governing the use of high-value tropical tree species. At present these must be certified in accordance with a standard for responsible forest management. The only current standard that meets the long-term aims of IKEA 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.

 Read more about FSC on [www.fscoax.org](http://www.fscoax.org)

For timber products such as paper, cardboard and particleboard, IKEA has not yet any demands to put on the producers of these products, but are however in the process of formulating the requirements. It has been difficult to trace the origins of the timber that is used as raw materials for paper, cardboard and particleboard. As a general rule, the producers of these

## 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 the Forest Stewardship Council (FSC).

### Level Two – IWAY

These requirements form part of the IKEA code of conduct for suppliers, “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 planted to replace intact natural forests after November 1994.

 Read more about IKEA's code of conduct on page 23

### 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 Two) to verified well managed forests according to a Level Four standard. The “4Wood” program is currently being revised.


### Level Four – certified responsibly managed forests

Level Four 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 Four that is accepted by IKEA.

products have many different sub-contractors, and many of them use large quantities of recycled material, so tracing the large number of different fibres is a complicated task.

**Monitoring**

The suppliers are checked within the IWAY audits that are performed by IKEA trading service offices.

 Read about how IKEA ensure IWAY compliance on page 23

The trading service offices carry out an annual survey to trace the origins of timber. Suppliers complete a questionnaire about the origins of the wood (solid wood, plywood, veneer and layer-glued wood) that is used to manufacture IKEA products. This enables IKEA to identify which “level” on the staircase the various sources of timber raw materials for its products have reached.

**Additional audits**

In addition to the IWAY audits, the suppliers must also accept random testing as part of the so-called “wood supply chain audit”. This inspection provides an opportunity to find out where the timber comes from and trace its origin all the way back to where it was felled.

**IKEA forest managers**

IKEA has 18 forest managers. Their task is to support IKEA trading service offices around the world when tracing the origin of the wood back to where it was felled. They also help suppliers to find timber that has been harvested in responsibly managed forests.

<b>IWAY fulfillment</b>		
(According to Forest Tracing report)		
	FY03	FY04
	97%	96%
<b>Total amount of timber used (m³ of logs)</b>		
	5.5 million	6.0 million

### **IKEA supports mapping of intact natural forests**

The non-profit organisation Global Forest Watch has mapped intact natural forests in various parts of the world, compiling the results in special atlases for the respective countries. These atlases have become invaluable tools for IKEA forest managers. 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.

📖 Read more about Global Forest Watch on [www.globalforestwatch.org](http://www.globalforestwatch.org)

### **“Sow a seed” rehabilitates rainforests in Borneo**

In 1998 IKEA set up the “Sow a seed” project with the aim of rehabilitating rainforests that had been devastated by logging and forest fires in the Malaysian state of Sabah on the island of Borneo. Since then more than 1 million trees have been planted. The plants will be carefully nurtured for the first ten years of their life, and after that the new forests will then be protected for a further 50 years. IKEA has pledged to continue the planting work until 2008, and in the intervening years the area planted will double in size.

📖 Read more about “Sow a seed” on [www.ikea-group.ikea.com/corporate/responsible/projects.html](http://www.ikea-group.ikea.com/corporate/responsible/projects.html)

### **IKEA works with WWF**

WWF and IKEA entered a partnership to promote responsible forestry in 2002. The co-operation with WWF extends over three main areas: the spread of information, education, and supporting the certification of responsible forest management. During the partnership the two organisations are committed to carrying out a series of projects that will contribute to the development of global toolkits on forestry issues and will promote responsible forestry on the ground in priority regions. Several joint projects are under way, for example supporting the establishment of “producer groups” in which the manufacturers of timber products work together to facilitate FSC certification of raw materials. Projects are currently under way in Russia, China, Estonia, Latvia, Lithuania, Romania and Bulgaria.

The co-operation between WWF and IKEA supports the implementation of IKEA's forest action plan and is based on the common goal of the two organisations to better care for the world's forests.

📖 Read more about the joint WWF-IKEA project on [www.panda.org/forests4life](http://www.panda.org/forests4life)

### **Scholarship to study responsible forest management**

Since 2001 IKEA has been funding a one-year course on sustainable forest management in the Baltic region. Every year 20 students from the Baltic states, Poland and Russia, receive scholarships enabling them to take part in the course, which is taught at the Swedish University of Agricultural Science in Alnarp, in the south of Sweden. The course aims to increase knowledge about responsible forest management in areas from which IKEA purchases large quantities of timber.



Member of the Sobol anti-timber poaching brigade in Russia checking truck with logged timber.



## Products & materials

IKEA pots produced in  
a factory in Vietnam

# IKEA products

## Environmental thinking at every stage

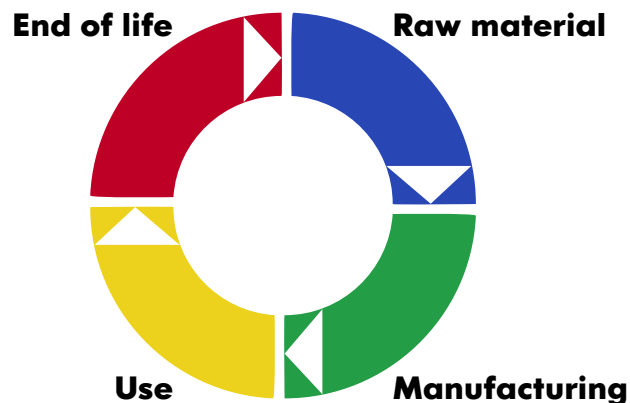
The maximum benefit from the minimum of resources. This maxim is at the heart of IKEA product development. Economising on resources makes an important contribution to the work of keeping IKEA prices low, at the same time as it reduces the environmental impact of products.

## IKEA of Sweden develops IKEA products

The product development is done by IKEA of Sweden in Älmhult, Sweden. Each business area (for example, Kitchen & Dining or Textiles) has an environmental co-ordinator and the business area is responsible for working with the requirements relating to the environment, health and safety.

## The eWheel method

When IKEA develops new products, the spotlight is placed on the environmental consequences of those new products throughout their entire life cycle. This is done with the help of the “eWheel” – a tool providing a systematic approach to analysing the environmental impact of the product.



### Raw material

Around 50 percent of IKEA's 10,000 products are made from wood or wood fibres. Wood is an excellent material from an environmental perspective. It can be recycled and is a renewable resource. Other important raw materials are metal, plastic, rattan and textiles.

- As little raw material as possible should be used and IKEA strives to increase the proportion of renewable and recycled raw materials.
- Smart solutions minimise the use of materials without affecting the function or appearance of a product. Some examples are hollow legs, particleboard cores instead of solid wood, and multi-functional furniture.

### Manufacturing

- Waste should be avoided. When possible, production waste is used in the manufacture of other products.
- Suppliers must follow the IKEA code of conduct, “The IKEA Way on Purchasing Home Furnishing Products” (IWAY). This includes, among other things, rules governing factory emissions to air and water, and instructions about how to handle waste and chemicals.
- ✚ Read about the IKEA code of conduct on page 23
- We always strive to provide our customers with sound products from a health perspective and have strict material and chemical demands e.g. no use of PVC (except some electrical components due to safety reasons).

**Continued on next page**

### Web-based training using the eWheel

IKEA has developed a training package based on the eWheel, which is made available to co-workers via our intranet and in the form of workshops. This training material examines a selection of IKEA products and focuses on certain specific aspects such as different types of finishes, choice of materials, packaging, and efficient use of resources.

### Testing of IKEA products

IKEA uses external laboratories to test products to assess, for example, emissions of volatile substances. If a product exceeds the limits for a particular emission, production is stopped and the product concerned is withdrawn from sale.

### Recall management

To ensure that products fulfil requirements relating to the environment, health and safety, IKEA works with the quality assurance of production. Despite this, in some instances products have not met the required demands. In such cases, a recall management system ensures that sales of the product are stopped, and that customers are informed and can return the product. A fast and professional recall is of the utmost importance to ensure high levels of product safety and quality, and preserve the good image of the IKEA brand.

### Transportation

Smart packaging is the most effective weapon IKEA has to reduce the environmental impact of transport. Clever design and flatter packaging help IKEA to squeeze more products into every load-carrying unit. This reduces both emissions and transport costs.

### Use

The environmental impact of a product in the customer's home is also taken into account.

- The products must be free from substances that cause allergies or that have other harmful effects on people's health or the environment.
- Certain products consume energy during use, and this energy consumption can be made more efficient through product development.

### End of life

Once products have reached the end of their useful life, IKEA strives to reclaim the materials of which they are made and recycle them, so that they can be re-used as new raw materials. However, the possibility of recycling varies from country to country.

## Product communication

We want the IKEA brand to stand as a guarantee of genuine concern for the environment and social responsibility. Therefore, IKEA does not mark its products with any external environmental labels.

The only exception to this is that IKEA has an ambition to FSC-label outdoor furniture in dark tropical hardwoods.

During financial year 2003 IKEA started to produce environmental information about its products to be displayed on price tags. A list has been produced containing around 35 key words relating to the environment, and the intention is to use this list as a basis for describing the environmental properties of products.

## New needs in the sofa range created the knock-down sofa

Different aspects of the IKEA sofa range made it clear that a need for renewal was imminent.

IKEA needed to consider the environmental impact of transporting bulky sofas, and the impact that its most frequently used sofa filling material, polyether foam, had on price, health and the environment.

On the basis of these circumstances a new knock-down sofa was created which unlike other sofas in the IKEA range comes in 4 packs:

- 1 pack with metal frame
- 1 pack with armrests
- 1 pack with cushions
- 1 pack with cover

This new solution has given rise to new customer benefits and environmental profits.

From a customer's point of view the product handling has been facilitated by reduced weight and smaller packages. This, in addition to a 30% slimmed product size, has made the product more manageable enabling customers to take it home in their own cars instead of having it delivered.



LUND knock-down sofa

From an environmental point of view fewer vehicles on the road has led to a reduction in emissions. Polyurethane has been exchanged for a more environmentally friendly supporting fabric, polyester fibers and bonell springs as comfort material.

In addition the product is now 100% separable for recycling when it has served its time.

## New chrome plating line ensures a safer work environment

IKEA has replaced chrome VI with safer and more environmentally friendly chrome III.

Chrome VI used in chrome plating lines has recently been labeled as carcinogenic. Chrome plating is used on many products for aesthetic reasons and rust protection. Within IKEA it is used mainly on brass taps as a surface treatment. Whilst the finished product is chemically stable, i.e. it is not carcinogenic, there are risks when using Chrome VI within production relating to the working and surrounding environment. Using Chrome III instead of VI offers several advantages, such as:

- Not carcinogenic
- Safer working environment
- Lower metal concentrations
- Reduced waste

Except for a marginal colour difference, the change hasn't affected either price or quality.

## Safe, healthy food in IKEA stores

Every year millions of portions of food are sold in IKEA restaurants, and sales of typical Swedish groceries via the in-store Swedish Food Markets have risen sharply over recent years. Food production has an impact on the environment, animals and people. Many consumers are concerned about the health risks posed by the food they eat.

IKEA aims to ensure that all its customers feel 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 the minimum impact on the environment.

## Tougher demands – the first step towards safe and healthy food

Food for sale at IKEA is purchased both locally and centrally. The centrally purchased range is the same for all IKEA stores all over the world. The local range is decided in each country.

IKEA has started to put demands on the suppliers by a code of conduct “The IKEA Way on Food”. This was formulated in 2001 and we are still only at the beginning. Since 2001 the following actions have been taken:

- In 2001 all suppliers were informed about IKEA’s 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.

## Organic products in the Swedish Food Market range

FY03	FY04
0	2

(Out of 150 products in the full range. The stores have on average 100 products.)

## The IKEA Way on Purchasing Food (IWAY on Food)

In 2001 IKEA formulated a series of demands for food suppliers in its code of conduct “IWAY on Food” (The IKEA Way on Purchasing Food).

 To download and print out “The IKEA Way on Purchasing Food” (IWAY on FOOD), please go to [www.ikea-group.ikea.com/corporate/responsible/conduct](http://www.ikea-group.ikea.com/corporate/responsible/conduct)

### “IWAY on Food” includes the following criteria:


#### Complying with legislation

All IKEA suppliers must comply with national and international legislation and agreements relating to food and food production in the countries where they operate.

#### Organic food

All agricultural products must be produced with due consideration for the environment and the welfare of animals and people. The long-term goal is to ensure that as much as possible of the food sold by IKEA is organic. No chemical pesticides or artificial fertilisers may be used in the production of organic food, and organic farming also allows animals greater freedom to express their natural behaviour patterns. All organic products that IKEA buys must

be certified in accordance with an official standard. This should be based on the standard issued by the International Federation of Organic Agriculture Movements.

 Read more about the international standard for organic produce on [www.ifoam.org](http://www.ifoam.org)

#### Animal welfare

Good animal husbandry in the food industry is not just a question of quality. To IKEA it is, above all, an important ethical issue. That is why measures that ensure the wellbeing of animals are an essential requirement in the production of all IKEA food, from rearing to slaughter. This includes the following requirements:

- No difficult or unnecessarily long journeys
- No regular use of antibiotics
- No use of hormones to boost animal growth
- No use of meat or bone-meal in animal fodder.

#### Genetically modified food (GMO) is prohibited

No genetically modified ingredients or products containing genetically modified organisms are permitted in the IKEA food range.

# Towards a sustainable production of the IKEA catalogue

Products  
& materials

The IKEA catalogue is one of the cornerstones of the IKEA Concept. It is distributed to more than 100 million households in more than 30 countries, and printed in 116 million copies.

During 2002, Inter IKEA Systems B.V., which is the owner and worldwide franchisor of the IKEA concept and also the producer of the annual IKEA catalogue, formulated an environmental strategy for the production of the IKEA catalogue. The environmental work for the catalogue started in the early nineties, when the catalogue was produced by using only chlorine-free pulp.

Similar to the environmental part of IWAY, the suppliers for the catalogue have to fulfill the requirements set up in the environmental strategy. The requirements for suppliers will also be followed up every other year, with questionnaires to all suppliers.

Indicators that are distinguished in the work with the 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)

As for the pulp and paper production, neither pulp nor paper is to be produced by using a bleaching process involving elementary chlorine. The suppliers of paper are also required to have a certified environmental management system implemented.

Wood and fibre used in the catalogue paper follows the same requirements as mentioned in level one and two in IKEA criteria for timber supplier, page 33.

## Suppliers with certified management system

	FY03
Certified paper suppliers	100%
Certified artwork/repro, gravure and offset suppliers	32%

## Paper (Use of resources)

Total amount	65,000 tonnes; 116 million catalogues
Fibres from certified forestry	74%
Recycled fibres	1.7%



**Cover of the 2004 IKEA catalogue, UK edition.**

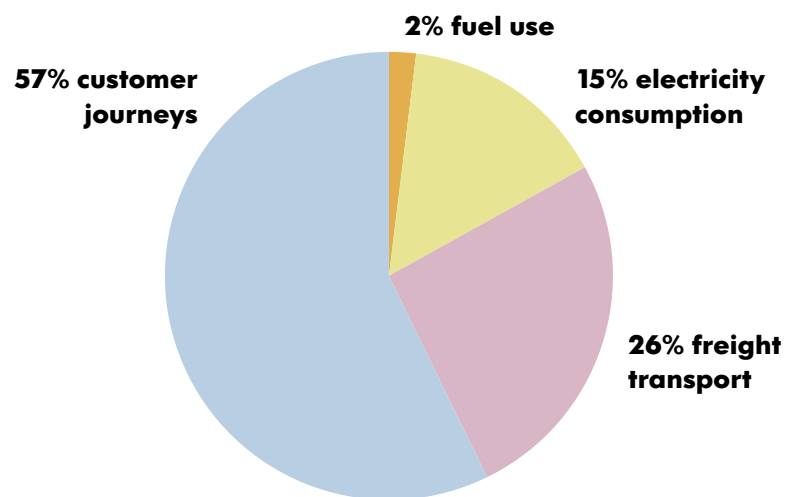
# Transport



IKEA container in  
Duisburg, Germany

# Emissions must be reduced


IKEA has decided to reduce carbon dioxide emissions caused by the transportation of products and people to and from the stores. The majority of the carbon dioxide comes from customers' journeys.



## CO<sub>2</sub> emissions from transport and other operations

### International co-operation for reducing climate change

Since 2000, IKEA has been involved in the international co-operative forum BLICC (The Business Leaders' Initiative on Climate Change). BLICC is a voluntary forum for a number of companies who have chosen to pool their knowledge and experience in order to co-operate on reducing carbon dioxide emissions. The companies that take part in BLICC produce a standard report on the carbon dioxide emissions related to their business activities.

 Read more about BLICC and the latest BLICC report, including IKEA's total carbon dioxide emissions on [www.respecteurope.com](http://www.respecteurope.com)

## Networks on transport and the environment

The impact exerted on the environment as a result of transport requirements related to IKEA operations is considerable. IKEA has invested in acquiring a greater insight into this relationship, not least to enable IKEA 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.

### Clean Cargo

A network for international shipping operators and the purchasers of their services. (Organised by Business for Social Responsibility, BSR.)

 Read more about BSR on [www.bsr.org/CSRResources/WGO/CC-GF/ccstatement.cfm](http://www.bsr.org/CSRResources/WGO/CC-GF/ccstatement.cfm)

### International Network for Transport and the Environment

NTM is a non-profit association working with environmental issues of the transport sector, in order to attain a transport system that is sustainable on long term. IKEA and NTM collaborates in calculating transport emissions. (Organised by the Transport Research Institute, Sweden.)

 Read more about the Swedish Transport Research Institute on [www.libdex.com/data/34/17198.html](http://www.libdex.com/data/34/17198.html)

### Smart Way

This network works to make road/rail transport in the USA more environmentally friendly. (Organised by Business for Social Responsibility, BSR.)

 Read more about BSR on [www.bsr.org/CSRResources/WGO/CC-GF/index.cfm](http://www.bsr.org/CSRResources/WGO/CC-GF/index.cfm)

# Transportation of IKEA products

A typical product’s route from supplier to store can be long. 28 percent of the total amount of carbon dioxide emissions generated by activities associated with IKEA comes from the transportation of goods. IKEA is working step by step towards more environmentally adapted transport solutions.

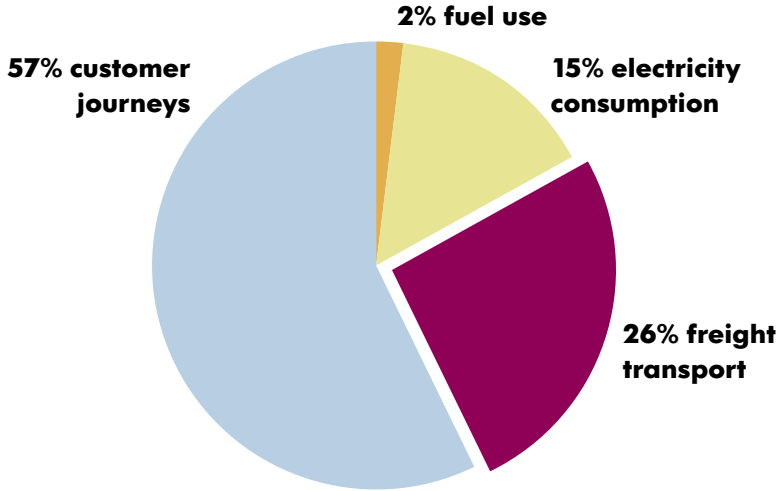
## Flat-packs help reduce emissions

Smart packaging is the most effective weapon to reduce the environmental impact of transport. Clever design and flatter packaging help to squeeze more products into every load-carrying unit. This reduces both emissions and transport costs. IKEA can never utilise 100 percent of the volume capacity in a trailer as the filling rate is limited by various factors such as the weight of goods. More important is to make optimum use of the available space.

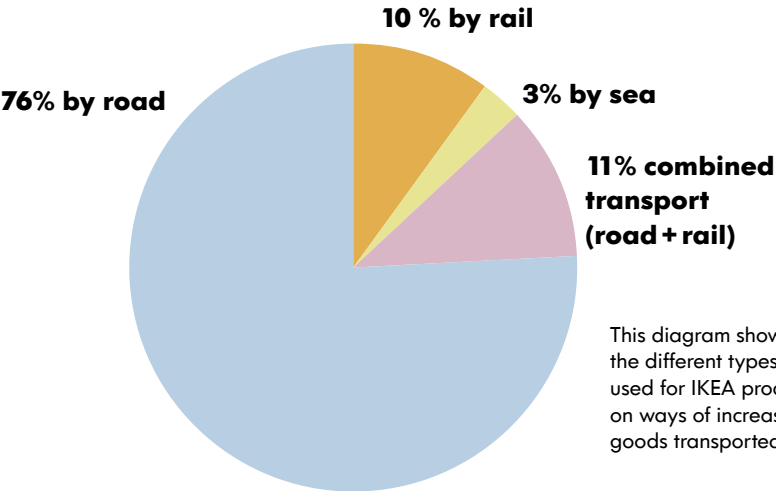
Reduction of CO <sub>2</sub> emissions per transported cubic metre per kilometre		
	FY03	FY04
Europe	-1%	-4%

Filling rates (Europe)		
	FY03	FY04
Supplier to warehouse	57%	57%
Warehouse to store	54%	57%



CO<sub>2</sub> emissions from transport and other operations (Europe)



This diagram shows a breakdown of the different types of transport currently used for IKEA products. IKEA is working on ways of increasing the proportion of goods transported by rail and sea.

Modes of transport (Booked transport volume, Europe)

### Environmental demands on road transport suppliers

IKEA uses 240 freight forwarding companies all over the world. In Europe IKEA has required its freight forwarders to meet certain environmental targets since 2001, and all now comply with at least the minimum level of these demands.

More modern vehicles and cleaner fuels, drivers tutored in fuel-efficient driving techniques, environmental training, environmental policies and action plans are all examples of measures that can lead to less transport pollution.

### Tougher demands stage by stage

One of the conditions when IKEA negotiates the provision of new transport services is that the supplier has an environmental policy and an action plan and can account for the company's environmental performance. In addition, every new supplier must fulfil certain criteria. These have been formulated in the form of a staircase model with four steps or levels. Each year IKEA raises the basic demands by one level on the staircase. The main areas in the staircase model are newer trucks/engines, CO<sub>2</sub>, fuel quality and other emissions.

### Rail transport

The amount of IKEA freight transported by rail in Europe was around 10 percent in 2004 (including combined transports, about 15%). IKEA is working to increase this figure, even though finding rail solutions that work effectively over national borders has so far been problematical. In 2002 IKEA established its own rail company operating scheduled freight services between Älmhult in Sweden and Duisburg in Germany. The five journeys a week replaced 300 road vehicles. In 2004 this service was taken over by an external operator, but it continues to carry IKEA freight.

### Fulfillment of environmental demands on transport suppliers

	FY04
Road	80%
Rail	96%
Sea	88%

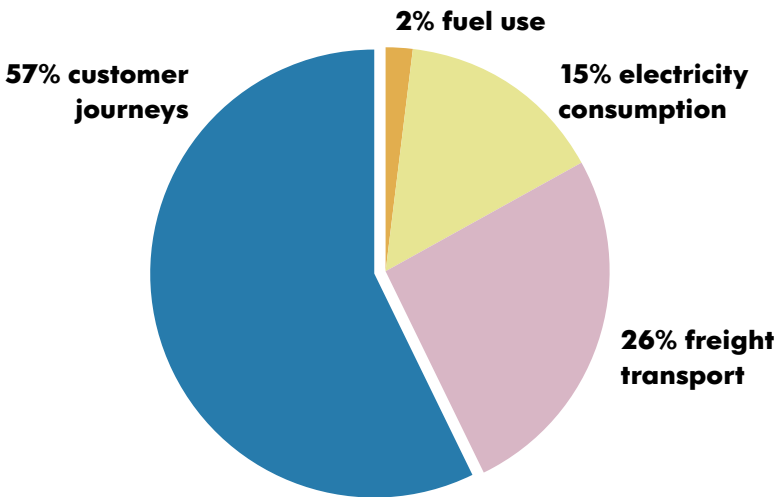
For rail transports, IKEA has set a similar staircase model as for sea and road, where environmental demands become successively more stringent. IKEA checks, among other things, that engine drivers have been trained in fuel-efficient driving techniques, issues requirements for other types of environmental training and specifies the type of energy that may be used in business operations.

### Increased use of sea transport

The amount of IKEA freight transported by sea within Europe was around 3 percent in 2004.

IKEA is working to increase the amount of freight that is transported by sea. During 2003 information days and training days were organised for all shipping operators. In conjunction with this IKEA also produced a series of environmental demands for all shipping operators that will be implemented during the course of future financial years.

The majority of the carbon dioxide comes from customers’ journeys to and from the stores. Most IKEA customers travel to and from the stores in their own cars. IKEA studies show that only about 10 percent of visitors use public transport. This means that the major source of carbon dioxide emissions arising from transport in conjunction with IKEA activities is, in fact, from the customers’ own journeys to and from the store.



CO<sub>2</sub> emissions from transport and other operations

### 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.

IKEA stores served by efficient public transport		
	FY03	FY04
	77%	88%
IKEA has achieved its target and is now investigating how to improve the situation further. This includes defining a new target.		

Customers using public transport		
	FY03	FY04
	9.9%	9.9%

### Public transport

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

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

### Home delivery

IKEA customers can use the home delivery service for goods. In most stores this service is provided by an independent company, and in most instances IKEA has started to put environmental demands on these contractors as well.



# Environmental work in IKEA units


**IKEA co-worker sorting  
waste at a store in Belgium**

# “Good housekeeping”

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

IKEA has 26 distribution centres in 16 countries; some operated by IKEA itself and others by external parties.

On 31 August 2004, the IKEA Group had a total of 179 stores in 23 countries.

 For a full list of IKEA stores, please visit [www.ikea.com](http://www.ikea.com)

## Environmental co-ordinators in all stores and warehouses

Environmental co-ordinators plan and implement measures to ensure that stores and warehouses take environmental responsibilities. Each unit must have its own action plan detailing the work to be done towards achieving the goals that IKEA has set for environmental training, recycling, sorting waste and saving energy etc.

Each store has to have a full-time or part-time environmental co-ordinator and every country has a national co-ordinator responsible for environmental issues. In the 2004 financial year this amounted to the equivalent of 91 full-time co-workers dealing with social and environmental issues (an increase from 60 the year before).

Each distribution centre has an appointed environmental co-ordinator. Each distribution area, often consisting of more than one country, also has an environmental manager. The co-ordinators sometimes work part time with environmental issues, and sometimes full time.

## Training – a powerful tool to raise awareness

About 75 percent of all IKEA employees work in the stores. All new employees are given introductory training in these important issues and attend basic training courses dealing with them

Basic environmental training/e-learning		
	FY03	FY04
Stores	9,650	11,808
Warehouses		2,000

in greater depth within the first six months. The aim is for all employees to take part in further training on a regular basis.

During the 2004 financial year some 11,800 IKEA co-workers (21 percent of the total number of store employees) received basic training. Including the distribution centres, 13,808 co-workers received training.

## Reviews

The distribution centres and the stores are required to introduce and meet progressively tougher demands within the area of environmental management, such as energy consumption and waste management, and to demonstrate that they have effective and reliable methods for monitoring their progress and following up the results.

This is followed up in reviews, focusing on issues related to their environmental management set-up, the evaluation of their actual performance as well as occupational health and safety.

The share of units that get approved has increased constantly over the past years, 75% of the stores were approved at an initial review in FY04, and 100% of the distribution centres, out of reviewed units. 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 also about exchanging knowledge and experiences while looking at the specific challenges and needs for the unit.



Social and environmental training in a store in Belgium.

# Waste must be reduced

Environmental work  
in IKEA units

## Waste management saves money

It is important for IKEA to reduce the amount of waste generated by its business activities, for example by re-using transport packaging and reducing the damage to products during internal 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.

Waste sorting is most successful in countries where there is an infrastructure to deal with the materials. Some stores and distribution centres have managed to recycle or use for energy production almost 90 percent of the waste they generate. During 2004 the stores managed to decrease the amount of waste going to landfill per sold m<sup>3</sup> of goods from 4 kg to 3 kg.

## Recovery

IKEA endeavours to adopt various preventive measures to minimise damage to products. When damage does occur, however, 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 – which is much appreciated by the customers.

### Waste recycled, reclaimed or used in energy production

	FY03	FY04
<b>Stores, total</b>	73%	77%
Europe	77%	85%
North America	57%	54%
Asia	59%	73%
<b>Warehouses, total</b>	78%	80%

### Recovered or reused products

	FY03	FY04
Stores Europe	58%	65%
Stores North America	63%	66%
Stores Asia and Russia	52–60%	56–70%

# Reducing energy consumption

Environmental work  
in IKEA units

IKEA has set itself the goal of reducing energy consumption in relation to the quantity of goods sold, and energy use is continuously monitored at each store. Action plans based on these results are drawn up in order to gain efficiency and to raise awareness among co-workers, for example, by replacing conventional light sources with more energy-efficient lighting.

## Kill-a-watt – Energy saving competition

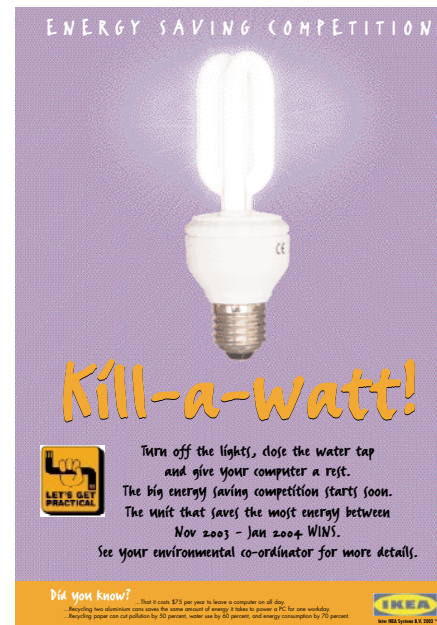
The Kill-a-watt competition was an initiative open to all IKEA units, running from November 2003 to January 2004. The aims were to reduce both the amount of electricity used and increase awareness of electricity costs. Another key objective of the competition was to promote the sharing of good ideas and best practice across IKEA.

30 countries participated in the competition, where the savings was equivalent to electricity for 2,000 homes or two IKEA stores during one year. The winner of the competition was the Ho Chi Minh City Office in Vietnam, which reduced its electricity consumption by 33%. To do that, the co-workers in Ho Chi Minh installed equipment to shut down electricity automatically after working hours. The system prevents co-workers from forgetting to turn the lights off when they leave, and also shuts down other equipment like air conditioning. This is especially important in an Asian climate, where air-conditioning use has a big impact on energy use.

### Reduction of energy consumption in relation to sold m<sup>3</sup>

	FY03	FY04
Stores, electricity	-1%	-2%
Stores, heating	-1%	-1%
Warehouses, electricity	+8%*	-3.9%
Warehouses, heating		-11.2%

\* 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

The different units are required to play their 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 investment has also been made in geothermal energy and solar panels. Since 2003, IKEA has increased its number of units with renewable energy systems and per FY 04, there were approximately 20 geothermal energy parks or solar panel sites.

Renewable energy		
	FY03	FY04
Stores	21%	30% electricity
Warehouses	1.9%*	18.7% total energy
* Calculated in a different way in FY03, hence the big difference.		

## Units with renewable energy installations

The seven units that have renewable energy installations so far, are:

### Geothermal installations

- Peterborough, United Kingdom
- Torsvik, Sweden
- Jarosty, Poland

### Solar panels

- Dortmund, Germany
- Wels, Austria
- Valls, Spain

### Green electricity

- Piacenza, Italy.



The Distribution Centre in Valls, Spain, has started to use a photovoltaic (solar cell) installation which converts sunlight into electricity. The installation is 2,700 square metres in size and has a capacity of 100 kW.