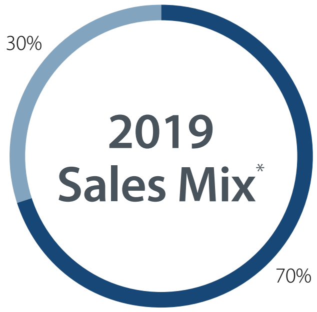
Financial Review



● North Asia
● Southeast Asia

* Including share of associates and joint ventures.
† On a 100% basis.

"Strong profit growth in the Food segment was driven by Southeast Asia Grocery Retail as the Group's multi-year transformation plan started to deliver enhanced quality and operating standards."

Accounting policies

The accounting policies are consistent with those of the previous year. The Directors continue to review the appropriateness of the accounting policies adopted by the Group with regard to developments in International Financial Reporting Standards ('IFRS'). In 2019, the Group adopted IFRS 16 'Leases'. The standard requires the Group to recognise almost all of its leases onto the balance sheet by capitalising future lease payments into a lease liability and a corresponding right-of-use asset. The Group has applied IFRS 16 based on a full retrospective approach. The adoption of this standard has a material effect on the financial statements, and the comparative financial statements have been restated in accordance with the requirements under IFRS. The impact on the Group's results for 2018 can be found in note 1 to the financial statements.

Results

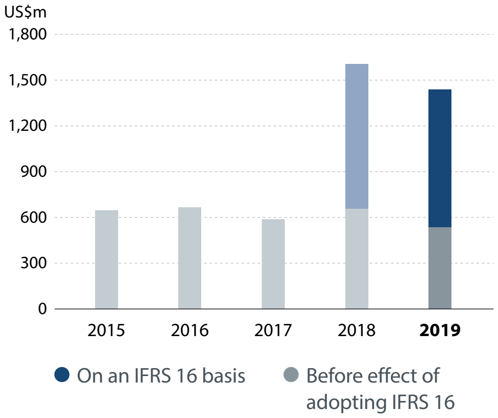
The ongoing execution of the Group's space optimisation plan as well as the divestment of the Rustan Supercenters business saw sales, excluding those of associates and joint ventures, reduced 5% to US$11.2 billion. Strong profit growth in the Food segment was driven by Southeast Asia Grocery Retail as the Group's multi-year transformation plan started to deliver enhanced quality and operating standards. Performance for the Health and Beauty Division was impacted by difficult trading conditions caused by the social unrest in Hong Kong, while increased investments in the growth of the store network impacted Home Furnishings profits. Overall, underlying operating profit at US$437 million, reduced 14% relative to the prior year.

Net financing charges decreased by US$8 million compared to 2018 mainly due to lower interest expense on lease liabilities partly offset by higher interest charge on bank borrowings as a result of higher debt to fund investments in the Philippines last year.

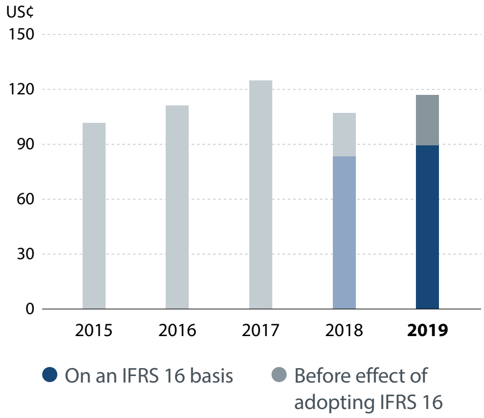
The Group's share of the results of associates and joint ventures increased 11% to US$126 million compared with 2018 principally due to higher contribution from Yonghui and the new contribution from Robinsons Retail since the Group invested 20% interest in November 2018, partly offset by the lower contribution from Maxim's.

The tax charge for 2019 was US$69 million, 29% lower than 2018, mainly due to reduced profit contribution from Hong Kong businesses.

Underlying EBITDA



Net Asset Value per Share



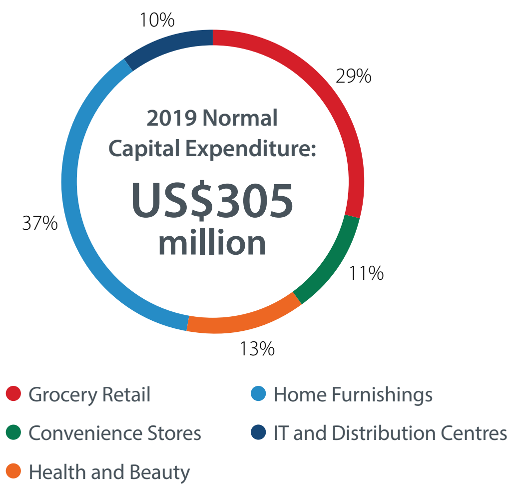
Underlying net profit was US$321 million, 10% behind 2018 levels. Underlying earnings per share were US¢23.72, as compared to US¢26.48 in 2018 on a restated basis.

Cash flow

Summarised Cash Flow	**2019 US$m**	2018 US$m restated
Underlying operating profit	**437**	506
Depreciation and amortisation	**1,002**	1,101
Increase in working capital	**(77)**	(21)
Net interest and other financing charges paid	**(160)**	(164)
Dividends received from associates	**89**	94
Others	**(3)**	(58)
Cash flows from operating activities	**1,288**	1,458
Principal elements of lease payments	**(790)**	(815)
Cash flows from operating activities after lease payments	**498**	643
Normal capital expenditure	**(305)**	(256)
Investments	**(6)**	(278)
Disposals	**28**	33
Cash flow from investing activities	**(283)**	(501)
Cash flow before financing but after lease payments	**215**	142

The Group maintained good operating cash flow and generated a net inflow from operating activities after lease payments of US$498 million in the year, compared to US$643 million in 2018. The unfavourable movement in working capital this year was partly due to a negative impact on payments to suppliers as a result of the earlier Chinese New Year holidays in 2020.

Normal capital expenditure was higher at US$305 million versus US$256 million in 2018 principally due to increased investment for new IKEA stores in Taiwan and Indonesia.



Financial Review

The Group's businesses, including associates and joint ventures, added a net 786 outlets in 2019, and now consists of 10,533 stores across all formats in 12 markets. Included in this total are 1,351 Yonghui stores, 1,753 Maxim's stores and 1,918 Robinsons Retail stores.

Number of Stores	**2019**	2018
At 1st January	**9,747**	7,180
Net additions	**786**	689
Additions related to Robinsons Retail investment in 2018	**–**	1,878
At 31st December	**10,533**	9,747

Balance sheet

Total assets, excluding cash and bank balances, of US$8.1 billion were broadly in line with 2018. Inventory was down by 2% to US$896 million reflecting the continuous effort to manage inventory. Net operating assets were US$1.2 billion at the end of 2019, a 7% increase versus the previous year.

The Group ended the year with net debt of US$821 million, US$77 million higher as compared to US$744 million at 31st December 2018, reflecting the continuous investments in our stores.

Dividend

The Board is recommending an unchanged final dividend of US¢14.50 per share, bringing the total dividend in respect of 2019 to US¢21.00 per share, the same as the prior year.

Financing

Where required, and typically for working capital purposes, borrowings are normally taken out in local currencies by the Group's operating subsidiaries to fund daily operations. Borrowings to fund any strategic expansion of the Group are managed centrally and typically funded in United States dollars and Hong Kong dollars, with hedging of foreign exchange and interest rate risk as may be appropriate depending on the particular investment.

The Group, excluding associates and joint ventures, had gross debt of US$1,122 million at the year end, an increase of US$82 million from 2018. The gross debt is funded by total committed and uncommitted lines of US$2,344 million. At the end of 2019, US$462 million of committed and US$760 million of uncommitted facilities were unused and available. The Group had cash balances of US$301 million as at 31st December 2019. The Group has implemented a global liquidity cash pooling scheme which enables the Group to manage and optimise its working capital funding requirements on a daily basis.

Net financing charges excluding those on lease liabilities increased from US$33 million in 2018 to US$39 million in 2019, reflecting the drawdown of facilities to fund the purchase of the additional investments in the Philippines and higher interest rates.

Financial risk management

A comprehensive discussion of the Group's financial risk management policies is included in note 37 to the financial statements. The Group manages its exposure to financial risk using a variety of techniques and instruments. The main objectives are to limit exchange and interest rate risks and to provide a degree of certainty about costs. As a matter of policy, the Group does not enter into speculative transactions in derivatives. The investment of the Group's cash resources is managed so as to minimise risk while seeking to enhance yield. Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt (short and long term), to maximise flexibility for the future development of the business.

Principal risks and uncertainties

A review of the principal risks and uncertainties facing the Group is set out on pages 133 to 134.

Clem Constantine
Chief Financial Officer
5th March 2020