Gaetano Ronchi, IKEA Components AB

Stainless Steel for House-ware 2012-1015

Singapore
IKEA Group Direction 2010-2015

IKEA House Ware Range Implications

China & Stainless at a Cross Road
IKEA at a glance 2011
Total IKEA Revenue in EUR billion
IKEA at a glance 2011

TOP SELLING COUNTRIES
- Germany 15%
- USA 11%
- France 10%
- Italy 7%
- Sweden 6%

TOP 5 PURCHASING COUNTRIES
- China 22%
- Poland 18%
- Italy 8%
- Sweden 5%
- Germany 4%

IKEA GROUP STORES WORLDWIDE
In 2011, the IKEA Group opened 7 new stores in 7 countries. As of 31st August 2011, the IKEA Group had a total of 287 stores in 26 countries.

CO-WORKERS PER REGION
- Europe 106,500
- North America 16,500
- Russia, Asia & Australia 8,000

SALES PER REGION
- Europe 79%
- North America 14%
- Russia, Asia & Australia 7%
OUR VISION
To create a better everyday life for the many people.

OUR BUSINESS IDEA
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.

IKEA Democratic Design: Low prices, but never at any price
We know that we must maintain an extremely low level of prices. Affordable for the many, no matter where they live. But it must be low prices with a meaning

So we must never compromise either design, nor functionality or quality
IKEA Group Direction 2010-2015
IKEA House Ware Range Implications
China & Stainless at a Cross Road
IKEA House-Ware Range Implications

Raw materials jockeying: price volatility is key

Sources: Metalytics; N.C. Mathur – dev since 1990
### IKEA House-Ware Range Implications

#### 400 Series at IKEA

<table>
<thead>
<tr>
<th>DEEP DRAWING 38%</th>
<th>CUTLERY/GADGETS/KNIVES 28%</th>
<th>TUBE / WIRE / PROFILES 16%</th>
<th>SHEET 18%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sinks</td>
<td>Pots &amp; Pans</td>
<td>Cutlery</td>
<td>Accessories</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>Gadgets</td>
<td>Legs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Knives</td>
<td>Wire</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Fronts, Cabinets/Furniture</td>
</tr>
</tbody>
</table>

- FY 2005: 90% of IKEA articles Austenitic (304)
- FY 2012: 95% articles Ferritic Grades

Stainless Steel Articles Purchase Value 300 Mill €  FY 2011

85% Mainland China
IKEA House-Ware Range Implications

400 Series at IKEA

IKEA customers buy stainless articles because of they are aesthetic and hygienic. What they want to buy is a nice surface and what they expect is that it shall be durable, long lasting.

Over-Specifying is Environmentally Inconsistent as well as Economically Disadvantageous

Design Final Products on Stainless Grades Properties

<table>
<thead>
<tr>
<th>Grade</th>
<th>Range</th>
<th>Predictable Cost</th>
<th>Sustainability</th>
<th>RM Impact on Final product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austenitics</td>
<td>General purpose</td>
<td>No</td>
<td>Lower</td>
<td>&gt; 50%</td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ferritics</td>
<td>Tailored</td>
<td>Yes</td>
<td>Higher</td>
<td>&lt; 40%</td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

FY 2011-2014: IKEA 100% Ferritic?
**June 12 Status**

<table>
<thead>
<tr>
<th><strong>Low Ridging Project</strong></th>
<th><strong>Mono-block Ferritic</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase 1 completed FY11</td>
<td>Trials &amp; “map” completed</td>
</tr>
<tr>
<td>Phase 2 on progress</td>
<td>Project Draft Available</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>430LR</strong></th>
<th><strong>400DD</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Lean 430</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Project on progress</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>420MP</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>420 MP Mass production</td>
</tr>
<tr>
<td>Project completed successfully</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>20Cr</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Enlarged Steel Suppliers base</td>
</tr>
<tr>
<td>Phase 1 completed successfully</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Utility Grade/s</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Secure Availability</td>
</tr>
</tbody>
</table>

- **Cookware Hollows**
  - Automatic Polishing
- **Sinks**
  - 304 substitution
- **Cutlery**
  - R.Mat. Cost Reduction
  - Cutlery Knives (9%): Corrosion Stability
- **Fronts, Cabinets, Furnit.**
  - R.Mat. Cost Reduction
- **Accessories, Legs; Gadgets**
  - Secure Availability

**IKEA Stainless**

**IKEA House-Ware Range Implications**
IKEA House-Ware Range Implications

Low Ridging Pjct Phase 2 FY12

<table>
<thead>
<tr>
<th>Competitive Weakness</th>
<th>Direct Cause</th>
<th>Corrective direction</th>
<th>Obstacle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unstable surface aspect</td>
<td>Over-intensive-labor-Polishing</td>
<td>Industrialize deep dwg process; automated polishing</td>
<td>Not align within IKEA</td>
</tr>
<tr>
<td>(Corrosion on In-bottom)</td>
<td>Impact bonding</td>
<td>Upgrade process technology</td>
<td>Confidence on change of cost structure</td>
</tr>
<tr>
<td>(Loosed Handles)</td>
<td>Spot resistance welding</td>
<td>Upgrade process technology</td>
<td>Unclear responsibility</td>
</tr>
</tbody>
</table>

FY12 Low Ridging Phase 2: 430LR mass production trial

- Re-engineering Polishing Cycle
- Secure 430LR Availability

Short-term benefits: Measure

Automatic Polishing: Gap Analysis

Results Report and Appraisal by Steering

430LR Implementation/ PDOCs update
IKEA House-Ware Range Implications

430 DD The Stainless grade for IKEA Monoblock Sinks

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<thead>
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<th>Direct Cause</th>
<th>Corrective direction</th>
<th>Obstacle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>304 as Raw material</td>
<td>Implement 20Cr (food contact compliant) on BTI</td>
<td>Innovation on Forming Industrial Polishing</td>
</tr>
</tbody>
</table>

Re-engineering Forming Cycle

Tooling design and blank geometry
Processing equipments & Forming parameters

Secure 20Cr DD Availability

Results Report and Appraisal by Steering
# 420MP Project Results

<table>
<thead>
<tr>
<th>Competitive Weakness</th>
<th>Direct Cause</th>
<th>Corrective direction</th>
<th>Obstacle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unstable Migration Test</td>
<td>420J1 Unstable raw material</td>
<td>Change to 420MP</td>
<td>Volume commitment</td>
</tr>
<tr>
<td></td>
<td>Unstable processing</td>
<td>Upgrade heat</td>
<td>Unclear ownership</td>
</tr>
<tr>
<td></td>
<td></td>
<td>treatment lines</td>
<td></td>
</tr>
</tbody>
</table>

**QUALITY**

- Chemical
- Mechanical
- Surface
- Process

Aim 14% Cr

Hardness control

Roughness & Pin-holes

Locked with MP project result
IKEA Group Direction 2010-2015
IKEA House Ware Range Implications
China & Stainless at a Cross Road
China: What’s issue

• Fast development
  - World manufacturing floor
  - Excessive pool of low skilled cheap labor
  - Completed supply chain and big scale

• Social and Environment compliance a tool to regulate and manage the supplier base

• Quality, environment, business ethics

• Income and consumption gap

Growth of average monthly wages in China, in % p.a. (National Bureau of Statistics)

<table>
<thead>
<tr>
<th>Year</th>
<th>2000–2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>12.6</td>
<td>12.9</td>
<td>13.1</td>
<td>11.7</td>
<td>12.8</td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>17.9</td>
</tr>
</tbody>
</table>

from 2011 to 2015, wages rise by 19% annually
12th Five-Year Plan Energy Efficiency
Targets, by Province, Autonomous Region and Municipality (Draft)
China & Stainless at a Cross Road

Regional Differences - Per Capita Stainless Steel vs. GDP / Capita (ppp)
Central Stainless Coils Purchasing

Since 2004 when were adopted as general purpose grades by IKEA, 400 series grades are now well established in Asia and IKEA Suppliers’ base has fully familiarized with them. Their maturity lead IKEA to withdraw from its central purchasing approach from FY13.

Central Stainless Competence Function

It will continue to be active with a primary task: to interface with selected steel mills to secure developments of tailored grades.

Aims are:
- Matching the Asian transition to industrialized manufacturing
- Raw material cost tuning (grades and usage)
- Challenge the OEMs supplying base (China versus South East Asia, India, Europe)
Tank You

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