



FINANCIAL STATEMENTS

2011-2012. London experience. World impact.

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Summary of financial highlights

	2012 £'000	2011 £'000
INCOME		
Academic fees	89,391	83,679
Funding Council grants	7,434	6,757
Research grants and contracts	1,463	1,475
Other income	7,381	6,825
Endowment and investment income	901	836
Total income	106,570	99,572

EXPENDITURE

Staff costs	51,278	48,864
Other costs		
External teaching and teaching support	20,454	19,891
Marketing	5,374	5,470
Technology	2,757	2,011
Premises and utilities	6,195	5,475
Catering and accommodation	6,830	6,252
Depreciation	3,923	4,036
Loss on revaluation of properties	–	1,560
Interest payable	126	141
Other overheads (including tax)	7,564	6,474
Total expenditure	104,501	100,174

Share of operating surplus of associate company	58	116
Surplus for the year transferred from accumulated income in endowment funds	1,217	1,374
Surplus for the year	3,344	888

BALANCE SHEET

Tangible assets	77,083	76,067
Investments	9,885	10,462
Endowment assets	25,932	24,035
Current assets	21,376	16,151
Current liabilities	(40,007)	(36,950)
Long-term liabilities and provisions	(8,922)	(4,939)
Net assets	85,347	84,826

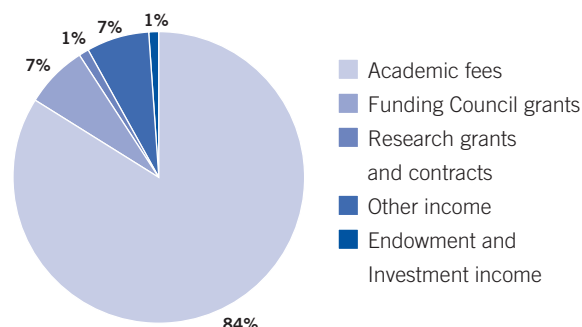
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Expendable and permanent endowments	25,932	24,035
General reserves	14,651	10,856
Pension reserve	(8,427)	(4,407)
Revaluation reserve	32,143	32,143
Deferred capital grants	21,048	22,199
	85,347	84,826

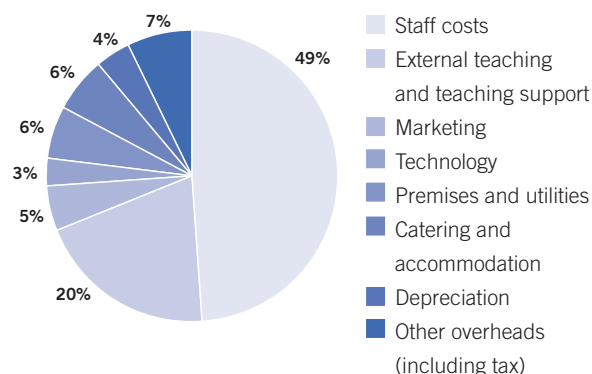
OTHER KEY STATISTICS

Net movement in cash funds for the year	5,576	6,955
Capital expenditure during the year	5,132	5,313

INCOME 2012



EXPENDITURE 2012



Dean's statement

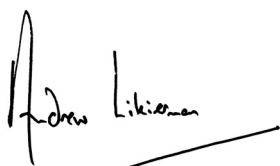
London Business School is about impact - profound impact on the way the world does business through our alumni, students and Faculty.

As the School approaches its 50th anniversary, we are particularly pleased to celebrate this year:

- Our #1 ranking in the Financial Times for our Masters in Finance programme for the second year running;
- Four of our Faculty being listed in the world's 50 top-ranked management thinkers;
- The Deloitte Institute of Innovation and Entrepreneurship up and running, generating research, cases, and a great deal of interest;
- The new Global Business Experiences for MBAs, with groups travelling to Boston/NewYork, Johannesburg, Mumbai, Hong Kong and Istanbul;
- Our May 2012 Reunion celebration, which saw record numbers of alumni returning to campus, followed closely by the Global Leadership Summit focused, in the London Olympic year, on the Business of Sport.

Looking ahead, we want to build on our first 50 years and strengthen our foundations. That includes the space that is essential for the growth of our programmes. We are also seeking to enhance our scholarship provision to enable the brightest and best students to study here. We're supporting our Faculty, to enable them to continue to deliver their intellectual leadership. And we're investing in the technology infrastructure to help us achieve these all these objectives in innovative ways.

The vitality of our global community enables the spirit of the London Business School to exist beyond its physical campus. I'm grateful for the continued support of our alumni, students, staff, Faculty, and Governing Body members, who are crucial to our success in making that happen.



Sir Andrew Likierman
Dean
London Business School

Chairman's statement

The School has been extraordinarily successful since it was founded in the 1960's. At that time it was supported by the government, but that support has now been reduced to negligible proportions. Meanwhile surpluses have been ploughed back into expanding the School and adding to its facilities.

But the School has now reached the limit of its current capacity and we need more space. The School is already open in the evenings, at weekends and for 48 weeks a year. And many company programmes are run offsite. An alternative is required and this costs money.

To maintain our success, we want Faculty of the highest order at the School. In order to attract them, we must be able to offer competitive packages and sufficient time for research.

The School is also competing for students. Others offer scholarships. So must we.

In all this, the School needs to be able to survive without diminishing standards.

I've never been anywhere where we've had more support from alumni and friends, and where people have given so freely of their time. I am hugely appreciative of everything they do. We could not manage without them. Thank you on behalf of the whole School community.



Sir John Ritblat
Chairman of Governing Body
London Business School

Corporate governance statement

The School is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the School has applied the principles set out in the UK Corporate Governance Code (formerly the Combined Code on Corporate Governance) issued by the London Stock Exchange in June 1998 and revised in June 2010 in so far as they relate to Higher Education Institutions. Its purpose is to help the reader of the financial statements understand how these principles have been applied.

The School's Governing Body has had regard to the voluntary Governance Code of Practice contained in the Guide for Members of Higher Education Governing Bodies in the UK issued by the Committee of University Chairmen in 2009. The School's practices are consistent with the provisions of the code with the exception of the fact that the Governing Body's Statement of Primary Responsibilities is not published in the School's annual report.

The School's Governing Body is ultimately responsible for the School's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The School's Governing Body comprises lay, academic persons and a student association representative, appointed under the statutes of the School, the majority of whom are non-executive. The role of Chairman of Governing Body is separated from the role of the School's chief executive, the Dean. The role of Treasurer is undertaken by the Associate Dean, Operations. The matters specifically referred to the Governing Body for decision are set out in the statutes of the School. As is the custom, and under the Financial Memorandum with the Higher Education Funding Council for England ("HEFCE"), the Governing Body holds itself responsible for the ongoing strategic direction of the School. It approves major developments and receives regular reports from executive officers on the day-to-day operations of the School's business and its associated companies.

The Governing Body undertook a review of its own

effectiveness during the 2011-12 financial year. The aims of the review were to ensure that the Governing Body is able to carry out its leadership role at the School effectively in line with governance best practice and to contribute to a wider review of the School's internal and external decision-making and advisory bodies, designed to ensure that the appropriate governance structure is in place to underpin the School's growth strategy in support of its vision. The review concluded that the Governing Body's governance role is clear and is carried out effectively. It made a series of recommendations designed to enhance further the engagement of the Governing Body in the development and implementation of the School's strategy. These recommendations were approved by the Governing Body in July 2012.

The Governing Body met three times during the 2011-12 financial year. It has five committees: an Audit and Risk Committee, a Campaign Committee, a Finance Committee, a Remuneration Committee and a Nominations Committee. All of these committees are formally constituted with terms of reference and comprise mainly lay members of the Governing Body, one of whom is Chair.

The Audit and Risk Committee's role in corporate governance is to provide a high level review of the internal control arrangements of the School and report on this to the Governing Body. It meets at least three times annually with internal auditors and at least once a year with external auditors to discuss audit findings and recommendations for the improvement of the School's system of internal control, together with management's responses and implementation plans. It also receives and considers reports from the Funding Council as they affect the School's business and monitors adherence to the regulatory requirements. Senior executives attend meetings of the Audit and Risk Committee, but are not members of the committee. The committee has the option of meeting the external and internal auditors on their own for independent discussions.

The Campaign Committee is responsible for the leadership and promotion of the School's fundraising campaign.

The Finance Committee recommends to the Governing Body the School's annual budgets, monitors

performance in relation to the approved budgets and advises the Governing Body on the effect of strategic decisions on the financial health of the School. The committee seeks assurance that the financial resources of the School meet its present and future needs. The committee meets at least three times a year. The committee has an Investment Committee reporting to it. This committee meets at least twice a year and is chaired by the Treasurer. The committee reviews and oversees the School's investment portfolio and strategy.

The Nominations Committee considers the filling of vacancies in the membership of the Governing Body and Governing Body committees.

The Remuneration Committee determines the annual remuneration of senior staff, including the Dean.

The Governing Body is satisfied that there is an ongoing process for identifying, evaluating and managing the School's significant risks, that it has been in place for the year ended 31 July 2012 and up to the date of approval of the financial statements, that it is regularly reviewed by the Governing Body and that it accords with the internal control guidance for directors on the Combined Code as deemed appropriate for higher education.

Senior management receive reports setting out key performance and risk indicators and consider possible control issues brought to their attention by early warning mechanisms embedded within the operational units. Managers are required to identify and assess risks in their operational units as part of the corporate planning process.

The Dean and the Audit and Risk Committee also receive regular reports from the internal audit services including recommendations for improvement. The internal auditors have not reported any significant findings from the audit work which they carried out during the year.

The Audit and Risk Committee's role in the area of risk management consists of a high level review of the arrangements for internal control and the consideration of reports from senior management on risk and control. The Governing Body's agenda also includes a regular

item for consideration of risk and control and receives reports thereon from senior management and the Audit and Risk Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its June 2012 meeting an assessment for the year ended 31 July 2012 was carried out upon receipt of documentation from senior management and the Audit and Risk Committee. At its November 2012 meeting, further assurance on risk and control was given to the Governing Body by senior management and the Audit and Risk Committee to enable the annual assessment for the year ended 31 July 2012 to take place. This assessment took into account events since 31 July 2012.

The Governing Body has approved management's assessment of the risks to which the School is exposed. This assessment has identified the types of risk, prioritising them in terms of potential impact and likelihood of occurrence. As part of the School's risk management process the Governing Body, through its Audit and Risk Committee, has ensured that internal controls are in place, and has satisfied itself that these controls are currently adequate to manage and reduce the risks identified.

Reviewing risk is an ongoing part of the governance of the School. Assessing the risks, managing the risks and ensuring that adequate internal controls are in place will continue to be an ongoing priority of the School's management team and the Governing Body.

Statement of the Governing Body's responsibilities

In accordance with the School's Charter and Statutes of Incorporation, the Governing Body is responsible for the administration and management of the affairs of the School, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Governing Body is responsible for ensuring that proper accounting records are kept that disclose at any time, and with reasonable accuracy, the financial position of the School, to enable it to ensure that the financial statements are prepared in accordance with the School's Charter of Incorporation, the Statement of Recommended Practice "Accounting for Further and Higher Education" and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memorandum agreed between the Higher Education Funding Council for England and the governors of the School, the Governing Body, through its designated office holder, is required to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the School and of the surplus or deficit and cashflows for that year.

Financial statements are published on the School's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the School's website is the responsibility of the Governing Body. The Governing Body's responsibility also extends to the ongoing integrity of the financial statements contained therein.

In relation to the preparation of the 2011-2012 financial statements, the Governing Body has ensured that:

- suitable accounting policies have been selected and applied consistently;
 - judgements and estimates have been made that are reasonable and prudent;
 - applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
 - the School has adequate resources to continue in operation for the foreseeable future. For this reason the going concern basis continues to be adopted in the preparation of the financial statements.
- The Governing Body has taken reasonable steps to:
- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
 - ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
 - safeguard the assets of the School and prevent and detect fraud;
 - secure the economic, efficient and effective management of the School's resources and expenditure.
- The key elements of the School's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:
- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
 - a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cashflow budgets;
 - regular reviews of academic performances and monthly reviews of financial results involving variance reporting and updates of forecast out-turns;
 - clearly defined and formalised requirements for approval and control of expenditure, being subject to formal detailed appraisal and review according to established approval levels;

- comprehensive financial regulations, detailing financial controls and procedures;
- a professional internal audit function whose annual programme is approved by the Audit and Risk Committee.

The Audit and Risk Committee, on behalf of the Governing Body, has reviewed the effectiveness of the system of internal control operated by the School and its subsidiaries and quasi-subsidiaries. Any system of internal control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

BY ORDER OF THE GOVERNING BODY

Richard Frost
Secretary
21 November 2012

Public benefit statement

London Business School was incorporated by Royal Charter on 8 July 1986. It was granted exempt charity status by the Exempt Charity Order 1996 in force from 1 August 1996. The School's Governing Body has had due regard to the Charity Commission's guidance on public benefit and has taken reasonable steps to ensure that this guidance has been considered in the activities undertaken by the School to deliver its charitable purposes.

The objects of London Business School as set out in its Royal Charter are "to advance education and learning in business and management studies and such other fields as may from time to time be decided upon by the School and to carry out research in said fields of knowledge and learning and publish the useful results of such research".

London Business School's aim is to ensure that its student body is balanced and diverse in terms of background and experience, with all the educational and cultural benefits that this brings. Applications are encouraged from all those with the motivation and academic ability to thrive at the School, whatever their background.

As set out in its Corporate Plan for the five year period to 2016-17 the School is committed to generating endowment and expendable income through fundraising activity to create student scholarships, with the ultimate goal of ensuring that no potential student is prevented from applying for a place on its programmes for financial reasons.

A range of scholarships and bursaries are currently available to degree programme students including specific financial needs bursaries. The School also awards Government 'Access For Learning' grant funding.

The School invests in a Financial Aid function to assist prospective students identify the most suitable form of loan financing.

The School invests in a PhD programme in order to provide a continuing supply of Faculty and to continue to develop management education.

The research produced by the School's Faculty is

published in publicly available academic journals. Working papers by Faculty are also freely available on the School's website. The results of the research carried out by Faculty are disseminated through a series of conferences, seminars, publications and other outreach activities, funded by the School's own resources and its allocation from HEFCE's Higher Education Innovation Fund.

Treasurer's report

Strategy and objectives

The School's vision is to have a profound impact on the way the world does business. It aims to achieve this vision through the delivery of Degree and Executive Education programmes and the production and dissemination of research.

The School's values – communal, courageous, engaged, eclectic and ambitious – underpin all aspects of its work and drive the development of a culture that fully supports the achievement of its vision.

Achieving the vision – Degree Programmes:

The School's degree programme portfolio remained unchanged from 2010-11, with the exception of minor increases to the Masters in Management (MiM) and part-time Masters in Finance (MiF) intake targets, and a decrease to the Dubai-London Executive MBA (EMBA) target. Recruitment to programmes was broadly on target.

The School seeks continual improvement by undertaking comprehensive reviews of the content and delivery of its programmes on a cyclical basis. A review of the MiF programme was completed this year, and a review of the electives portfolio commenced. Recommendations arising from the MBA programme review completed in 2010-11 were implemented, notably the global business experiences, London talks and leadership launch initiatives.

In the Financial Times rankings, the MBA fell from first to fourth, after ranking first for three years running. The EMBA and EMBA-Global programmes were tenth and third respectively. The MiF remained first in the second year of the Masters in Finance post-experience ranking. The MiM is on track for entry into the 2014 Masters in Management ranking.

Overall student experience ratings increased to 4.38 out of 5.0 against a target of 4.3. Career services ratings improved on last year, as did degree programme teaching ratings for core courses, while there was a slight fall for electives.

Achieving the vision – Executive education:

The School's executive education open programmes portfolio remained broadly unchanged from 2010/11 but included the successful launch of two new open finance programmes – investment management and project finance. Custom programmes continued to flourish seeing the two largest custom programme contracts ever awarded to the School in 2011/12.

The FLARE pedagogy, a framework developed to structure both open and custom programmes to design and deliver world class learning solutions was implemented on all key accounts. Off-campus delivery capability has been significantly improved and programmes for most £million+ custom clients are now being delivered exclusively off-site.

Executive education rankings in the Financial Times fell from sixth to eighth for open programmes and rose from 29th to 27th for custom programmes. The overall executive education ranking rose from 17th to 15th. In Businessweek open enrolment programmes were ranked 14th and custom programmes 11th. Programme ratings from participants on both open and custom programmes for the year remained at an average of 4.6 out of 5.0 against a target of 4.6. Executive education teaching ratings increased from an average of 4.52 to 4.53 for open programmes and from 4.52 to 4.56 for custom programmes.

Achieving the vision - Research:

The School's research strategy is to undertake top quality research that will influence business leaders and managers, public policy-makers and other researchers worldwide. In line with this strategy, work has continued to develop the School's three key research initiatives: The Centre for Corporate Governance, the Collier Institute of Private Equity and the Deloitte Institute of Innovation and Entrepreneurship which was launched last year.

The Research and Faculty Office continued to work to secure external funds to support the School's research activities. Overall about £1.7 million of external research grant funding was received in 2011-12. Of particular note was the continuing success in obtaining grants

Treasurer's report *continued*

from the European Research Council, with another member of Faculty receiving an award for €1.1 million in summer 2011.

The PhD programme admitted 15 students in the year, in line with the target annual intake. The average annual intake over the past five years has been 14, and it is hoped that 17-18 students will be recruited each year over the coming years to create an overall group of 75. Of the 13 graduating students, all have obtained academic placements, four at schools ranked in the FT top 50.

Developing Resources

Faculty

Eight new members of Faculty were recruited for the 2012-13 year, compared with five in 2011-12. Seven members of Faculty left the School at the end of the year, of whom one has been appointed dean of the University of Delaware's Alfred Lerner College of Business and Economics, four are taking up posts at other schools, one has left the School's tenure track and one has retired. Core Faculty headcount is expected to reach 100 in 2012-13.

Faculty turnover remained around 9%. Achieving critical mass in some subject areas remains challenging. There has been no increase in adjunct Faculty numbers. The diversity of the Faculty continues to grow slowly. Women Faculty will increase from 22% in 2011-12 to 24% in 2012-13, and the number of nationalities represented will increase from 27 to 31. Salaries continued to be benchmarked against the School's main competitors and retention of parity sought.

Staff

Voluntary staff turnover for the year to the end of July 2012 was 16% against a target of 20%.

Internal applicants filled 35% of vacancies during the year against a target of 30%. Total staff headcount closed at 533. Salary benchmarking to ensure staff salaries remain competitive compared with the London job market is being undertaken.

The 2012 School survey achieved high scores on engagement, empowerment, management, collaboration between departments, and communication. The main areas for improvement were collaboration across the School, and learning and development.

Estates

The School invests significantly in its estate to ensure the provision of world class facilities for all its stakeholders. The School is, however, space constrained and looking to expand. To this end external planning permission for development of the main campus was received in the year. The School is also negotiating with Westminster City Council to acquire the leasehold of Old Marylebone Town Hall and plans for the design and usage were agreed in July 2012. Exchange of contracts is anticipated in winter 2012.

During the year the School invested nearly £4 million (£5 million in 2010/11) to refurbish Labzone; to convert E Wing basement into teaching and lounge facilities; and to deliver new offices on Sainsbury second floor. Carbon emissions decreased by 11% against the previous year, bringing the School's overall carbon emissions to 12% below the 2005 baseline, in line with the target set by HEFCE for the sector.

Technology

During the year the School invested over £1 million in technology. Significant progress has been made on mitigating some of the highest risk core IT infrastructure issues. A new technology strategy more aligned to the needs of the business is underway. The core of the strategy is focused on the use of cloud services to deliver 'utility' IT services to the business and free up internal resources for more value adding initiatives. A business systems transformation strategy has also been agreed and an in-principle five year portfolio of projects and concept work was approved in March. The School expects to invest significantly more in its technology over the next five years.

Stakeholders

A review of the effectiveness of the work of the School's

Governing Body was completed. Its recommendations will be implemented in 2012-13.

Work continued to develop and implement a comprehensive engagement strategy for the alumni community. Implementation of an international alumni club charter is ongoing, and work focusing on leadership succession and standardisation of club constitutions has been undertaken. All executive education alumni were invited to Reunion 2012 for the first time. A degree programme alumni strategy was created and is now being implemented. The number of alumni contactable by email rose to 66% against a target of 65%. The number of alumni contactable by post fell slightly to 73% against a target of 78%.

The School continued to engage effectively with the Global Advisory Council and Office of Distinguished Friends, recognising the commitment of the two bodies' membership to the School and co-ordinating the support they provide for its activities.

Scope of the financial statements

The consolidated financial statements are prepared in accordance with applicable accounting standards and comprise the results of London Business School; its subsidiary company London Business School Trading Company Limited; its quasi-subsidiaries, the London Business School Anniversary Trust ('the Trust'), the Centre for Management Development Company Limited ('CMD') and Sussex Place Ventures Limited ('SPV'); and its investment in the Global Entrepreneurship Research Association ('GERA'). The consolidated financial statements are referred to as the School's financial statements throughout.

CMD undertakes activities that are more appropriately channelled through a limited company and donates profits to the Trust under gift aid. The Trust in turn donates money to the School to support investment in Faculty, research, estates services and fundraising. The financial statements of the Trust have been prepared under the Statement of Recommended Practice "Accounting and Reporting by Charities" issued in March 2005 and the Charities Act 2011.

GERA advances education and learning in the field of entrepreneurship practice and policy development including (but not limited to) the provision and conduct of an international programme of research and the dissemination of the results of such research.

Results for the year

A summary of the School's results for the year to 31 July 2012 is as follows:

	2012 £'000	2011 £'000
Income	106,570	99,572
Expenditure	(104,501)	(98,614)
Loss on revaluation of properties	–	(1,560)
Share of operating surplus of associate company	58	116
Surplus/(Deficit) for the year after tax	2,127	(486)
Endowment funds	1,217	1,374
Surplus for the year retained within general reserves	3,344	888
Surplus/(Deficit) for the year after tax	2,127	(486)
Pension fund actuarial loss	(4,189)	(182)
Endowments	2,469	4,884
Unrealised gain following the revaluation of properties	–	7,926
Increase following the revaluation of investments	1,265	2,204
Transfer to deferred capital gains	–	(214)
Total recognised gains for the year	1,672	14,132

Operating results

We are pleased to report that the School has had an excellent year having achieved an operating surplus of £3.3 million.

Income in the year grew by £7 million (7%). Fees from Degree Programmes grew from £51 million to £54 million (7%), as a result of both price increases and increased student numbers. Executive education open programme revenues grew from £16.7 million to £18.4

Treasurer's report *continued*

million (£1.7 million or 10%). Custom programme revenues grew from £16.2 million to £16.7 million (£0.5 million or 3%) despite challenging conditions. Funding Council grants increased from £6.8 million to £7.4 million (£0.6 million or 9%) an additional £1 million coming from HEIF.

Despite revenue growth of over 7% expenditure in the year only grew by around £6 million or under 6%. Faculty and staff costs continue to be closely managed as at £51 million (2010/11: £49 million) they represent a significant proportion of School expenditure. Faculty and staff costs increased 4% year on year.

Within other operating expenses key areas of procurement spend were identified and 27 new contracts were targeted to reduce risk and ensure value for money. A target cost saving of £300,000 was exceeded by £50,000+. New procurement procedures and policies were introduced to support best practice for all non-procurement staff, and a communications strategy enabled a considerable improvement in the visibility of procurement across the School. A significant increase in IT procurement was supported, and plans will be developed to accommodate the procurement requirements of Estates and Old Marylebone Town Hall.

Fundraising

The School has embarked on a major fundraising campaign to raise £100 million. A final decision on the acquisition of Old Marylebone Town Hall led to delays in finalising a number of new commitments this year. These are expected to crystallise next year. Conversely, last year saw the launch of the Deloitte Institute of Innovation and Entrepreneurship, underpinned by a ten-year partnership agreement. Hence commitments in 2011-12 totalled £6.1 million (2010/11: £13.3 million).

Reserves

Reserves have increased by £1.7 million to over £64 million. General reserves increased by £3.8 million as a result of both the operating surplus and the inclusion of unrealised gains on the unrestricted share of the investment portfolio. Expendable and permanent endowments increased by £1.9 million. The pension reserve however increased from £ (4.4) million to

£ (8.4) million. This relates to the School Pension Scheme which is now closed to both new and active members. The increase has arisen due to a fall in the discount rate used to calculate the net present value of future liabilities. This assumption is based upon the long term yield on corporate bonds. The next full triennial valuation of the scheme is due in the coming year.

Investment portfolio

The School's investment portfolio is managed using the products of an external fund manager. The performance of the portfolio is monitored by the Investment Committee. The total returns on funds during the year were in line with market benchmarks.

Investment income totalling £0.9 million is included in the income and expenditure account for the year, similar to last year.

The market value of our investment portfolio at the year end was £35.5 million compared to £34.2 million at last year end. An unrealised gain on revaluation of £1.3 million or 4% of the investment portfolio has been included in the total recognised gains for the year.

Monitoring performance and principal risks

The School has in place a full risk assessment process. In addition, monthly reporting is produced for senior management to monitor key performance measures around key areas. These include student, participant and client feedback on teaching and the experience in general; graduate recruitment; degree programme applications and conversions; executive education participant applications and numbers; financial risks to achieving the budget; and Faculty and staff turnover. These allow us to take necessary action as quickly as possible where required during the year.

The future

It continues to be the vision of London Business School to have a profound impact on the way the world does business. We continue to ensure that our plans for the future provide the School with a robust financial model to underpin the achievement of the vision.

We plan to focus on continuing to prepare to grow our revenues in all areas in anticipation of additional space coming on line; whilst continuing to enhance the experience for our students and participants so that we remain at the top of the world rankings. We continue to manage our operating costs efficiently and effectively whilst continuing to invest in Faculty; in staff; and in technology in particular;

Investing in our fundraising and developing a comprehensive campaign to provide funding to support both our on-going costs and future investment remains a key priority. Fundraising efforts in the future continue to be focused on space, scholarships, Faculty and technology.

Catherine Webster

Treasurer

21 November 2012

Independent auditor's report to the Governing Body of London Business School

We have audited the group and School financial statements (the "financial statements") of London Business School for the year ended 31 July 2012 which comprise the Consolidated Income and Expenditure Account, the Consolidated and School Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Consolidated Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Governing Body, in accordance with the Charters and Statutes of the School. Our audit work has been undertaken so that we might state to the Governing Body those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Governing Body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Governing Body and auditor

As explained more fully in the Statement of the Governing Body's Responsibilities set out on pages 6 to 7 the Governing Body is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and School's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Governing Body; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the Group and School as at 31 July 2012 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

Opinion on other matters prescribed in the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

- funds from whatever source administered by the School for specific purposes have been properly applied to those purposes
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matter where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion:

- the statement of internal control included as part of the Statement of the Governing Body's responsibilities is inconsistent with our knowledge of the School and group.

Neil Thomas

for and on behalf of KPMG LLP. Statutory Auditor

Chartered Accountants

15 Canada Square

London E14 5GL

United Kingdom

30 November 2012

Accounting policies

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets and investments, and in accordance with applicable United Kingdom accounting standards, applicable United Kingdom law and the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of London Business School ("The School") and its subsidiary and quasi-subsidiary undertakings for the financial year to 31 July. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group transactions are eliminated on consolidation.

The consolidated financial statements also include the School's investment in the Global Entrepreneurship Research Association ("GERA"). The year end date for GERA is 31 December. It differs from that of the School because its main business operation revolves around the 12 month period January to December, which, in the opinion of the Governing Body, provides a true and fair view of the financial statements. The consolidated statements include the School's share of the operating result of the unaudited interim financial statements of GERA for the period from 1 January to 31 July.

The consolidated financial statements do not include the financial statements of London Business School Students Association as the School has no control or dominant influence over policy decisions and therefore it is considered to be a separate entity.

(c) Grants

Grants receivable for the normal operation of the School are credited to the income and expenditure account in the period in which they are receivable.

Grants which are applied to acquire tangible fixed assets are credited to deferred capital grants when received and released to the income and expenditure account over the useful lives of the relevant assets. Grants which are applied to acquire land are credited to the income and expenditure account in the year the land is acquired.

Research grants are credited to the research grants and contracts account for the relevant project. Income is recognised when received and matched against corresponding expenditure for each project. Any balances on such projects comprising of unexpended amounts are deferred from revenue and recorded in accruals and deferred income on the balance sheet. Any expenditure awaiting reimbursement is treated as a prepayment until reimbursement is received.

(d) Fee income

Academic fee income includes all amounts receivable in respect of courses completed at the year end and the relevant proportion for those still in progress at the year end.

Any amounts received in respect of courses that have not started by the year end are included as course payments received in advance.

(e) Charitable donations accounting and income recognition

Restricted charitable donations are recognised when relevant conditions have been met; in many cases recognition is directly related to expenditure incurred to achieve the specified objectives.

Unrestricted donations are recognised in the financial statements when the donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that

the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

New restricted donations retained for the benefit of the School are recognised in the statement of total recognised gains and losses and in endowments; other donations are recognised as other income in the income and expenditure account.

Where charitable donations are to be retained for the benefit of the School as specified by the donors, these are accounted for as endowments. There are three main types:

1. Unrestricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the School;
2. Restricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective;
3. Restricted expendable endowments – the donor has specified a particular objective and the School can convert the donated sum into income.

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from restricted endowments not expended in accordance with the objectives of the endowment is transferred from the income and expenditure account to restricted endowments. Any realised gains or losses are retained within the endowment in the balance sheet.

Increases or decreases in value arising on the revaluation or disposal of endowment assets i.e. the appreciation or depreciation of endowment assets are accounted for in the balance sheet by debiting or crediting the endowment asset and crediting or debiting the endowment fund and reporting in the statement of total recognised gains and losses.

(f) Foreign currencies

Transactions in foreign currencies are converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the balance sheet date, and the gains and losses on translation are reflected in the income and expenditure account.

(g) Pensions

The School contributes to two defined benefit schemes and one defined contribution scheme.

The London Business School Pension Scheme (SPS) is a defined benefit scheme which is contracted out of the State Second Pension (S2P). The SPS closed to new members from 1 August 2004 and to current members from 1 August 2010. The difference between the fair value of the assets held in the SPS and the liabilities of the SPS, measured on an actuarial basis using the projected unit method, are recognised in the School's balance sheet as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the School is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme. Changes in the SPS asset or liability arising from factors other than cash contribution by the School are charged to the income and expenditure account or the statement of total recognised gains and losses in accordance with FRS17 "Retirement Benefits".

The School participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The School is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying

Accounting policies *continued*

assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

Defined contribution scheme costs are charged to the income and expenditure account as they are incurred.

(h) Fixed assets

All fixed assets costing more than £3,000 are capitalised. All assets are stated at cost or in the case of freehold/leasehold at valuation. All assets are depreciated in line with their expected useful lives using the straight line method at the following rates:

	Annual rates of depreciation
Land	no depreciation
Freehold buildings	2%
Leasehold buildings	period of lease
Facility improvements	10%
Furniture, fittings and equipment	20-25%
Computer equipment	33%

A full month's depreciation is charged in the month of purchase and no depreciation is charged in the year of disposal. Any gains and losses on disposals of fixed assets are reflected in the income and expenditure account in the year in which they occur. Assets in the course of construction are accounted for at cost and are capitalised as incurred but are depreciated only when the individual asset is operational.

(i) Heritage assets

The School does not ordinarily capitalise its heritage assets as the total value of such assets owned by the School is not considered sufficiently material to influence the presentation of the financial statements. The works located on site

currently are from a variety of sources. Some are owned by London Business School whilst others are on loan from private individuals and corporations. All artwork is insured and the level of cover reviewed on an annual basis by the School's art curator.

(j) Maintenance of premises

The cost of routine corrective maintenance is charged to the income and expenditure account as incurred.

(k) Investments

Endowment asset investments and other fixed asset investments are included in the balance sheet at market value. Investments in associate companies are shown in the consolidated balance sheet at attributable share of net assets.

(l) Stock

Stock is stated at the lower of cost and net realisable value.

(m) Taxation status

The School is an exempt charity within the meaning of schedule 3 of the Charities Act 2011 (formerly schedule 2 of the Charities Act 1993) and is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the School is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 287 CTA2009 and sections 471, and 478-488 CTA 2010 (formerly s505 of ICTA 1988) or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The School is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed

assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

(n) Leases

Operating leases are charged to the income and expenditure account on a straight line basis over the period of the lease.

(o) Provisions

Provisions are recognised when the School has a present legal or constructive obligation as a result of a past event and it is probable that a transfer of economic benefit will be required to settle the obligation and reliable estimate can be made of the amount of the obligation.

(p) Funds

The following types of fund are maintained:

- Endowments: these are recorded as either expendable or permanent in accordance with the wishes of the donor. Permanent endowments require the capital to be maintained in perpetuity with the benefit of the return on capital being available to the School to allocate. Expendable endowments can be expended but are restricted for specific use.
- Pension reserve: in accordance with FRS 17 “Retirement Benefits”, the liability attributed to the SPS defined benefit scheme is shown as a separate fund. As the scheme is currently in deficit this is a negative reserve. No designation of general funds to meet the pension commitments at the balance sheet date is in place as the School anticipates meeting such commitments through future cash flows.
- Revaluation reserve: this represents the value of revalued freehold and long leasehold land and buildings.
- General reserve: where the funds are not restricted as to use but may be applied for any purposes within the School’s charter.

(q) Going concern

The Governing Body has been provided with detailed financial forecasts and estimates of income, expenditure and cash flows for the period to 31 July 2017, and a high-level forecast of income, expenditure and cash flows for the period to 31 July 2025. Detailed income forecasts and monthly cash flows have been prepared for the period to 31 July 2013. Adequate financing arrangements are in place together with the investment portfolio to mitigate financial risks contained within the projections.

The Governing Body believes that the School is well placed to manage its business risks effectively, despite the current uncertain economic situation. The members of the Governing Body have a reasonable expectation that the School has adequate resources to continue in operational existence for the foreseeable future, and is confident that its future income streams will maintain these resources. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(r) Cash flows and liquid resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included as cash.

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities, certificates of deposit and loan stock held as part of the School’s treasury management activities. They exclude endowment investments.

Consolidated income and expenditure account

for the year ended 31 July 2012

	Notes	2012 £'000	2011 £'000
INCOME			
Academic fees	1	89,391	83,679
Funding Council grants	2	7,434	6,757
Research grants and contracts		1,463	1,475
Other income	3	7,381	6,825
Endowment and investment income	4	901	836
Total income		<u>106,570</u>	<u>99,572</u>
EXPENDITURE			
Staff costs	6	51,278	48,864
Other operating expenses	7	49,300	45,714
Depreciation	9	3,923	4,036
Loss on revaluation of properties		–	1,560
Total expenditure		<u>104,501</u>	<u>100,174</u>
Surplus/(deficit) after depreciation of tangible fixed assets and before tax		2,069	(602)
Share of operating surplus of associate company	11	58	116
Taxation	8	–	–
Surplus/(deficit) after depreciation of tangible fixed assets and tax		2,127	(486)
Surplus for the year transferred from accumulated income in endowment funds	16	1,217	1,374
Surplus for the year retained within general reserves		<u>3,344</u>	<u>888</u>

The notes on pages 24 – 46 form part of these financial statements.

Consolidated statement of total recognised gains and losses

for the year ended 31 July 2012

	Notes	2012 £'000	2011 £'000
Surplus/(deficit) for the year after tax		2,127	(486)
New endowments	16	2,469	4,884
Pension fund actuarial (loss)	26	(4,189)	(182)
Unrealised surplus following the revaluation of properties		–	7,926
Increase following the revaluation of investments		1,265	2,204
Transfer to deferred capital grants	16,23	–	(214)
Total recognised gains for the year		<u>1,672</u>	<u>14,132</u>
Prior year adjustment	28	1,501	–
Total recognised gains recognised since last annual report		<u>3,173</u>	<u>14,132</u>

Reconciliation of total reserves

for the year ended 31 July 2012

	Notes	2012 £'000	2011 (Re-stated) £'000
Opening reserves and endowments	17	62,627	48,495
Total recognised gains for the year		<u>1,672</u>	<u>14,132</u>
Closing reserves and endowments	17	<u>64,299</u>	<u>62,627</u>

Refer to note 28 for further details on the prior year adjustment.

Consolidated statement of historical cost surplus and deficits

for the year ended 31 July 2012

	Notes	2012 £'000	2011 £'000
Surplus/(deficit) for the year before tax		2,127	(486)
Difference between a historical cost depreciation charge and the actual depreciation charge for the year, calculated on the revalued amount		<u>(1,155)</u>	<u>(742)</u>
Historical cost surplus/(deficit) for the year before tax		<u>972</u>	<u>(1,228)</u>
Taxation	8	–	–
Historical cost surplus/(deficit) for the year after tax		<u>972</u>	<u>(1,228)</u>

Balance sheets

as at 31 July 2012

	Notes	Consolidated		London Business School	
		2012	2011 (Re-stated)	2012	2011 (Re-stated)
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	9	77,083	76,067	77,044	76,028
Other investments	10	9,575	10,210	205	201
Investment in associate company	11	310	252	–	–
		<u>86,968</u>	<u>86,529</u>	<u>77,249</u>	<u>76,229</u>
ENDOWMENT ASSETS	12	25,932	24,035	–	–
CURRENT ASSETS					
Stock		109	105	109	105
Debtors	13	9,575	9,930	5,834	5,430
Cash at bank and in hand		11,692	6,116	11,391	5,336
		<u>21,376</u>	<u>16,151</u>	<u>17,334</u>	<u>10,871</u>
Creditors: amounts falling due within one year	14	(40,007)	(36,950)	(41,225)	(35,647)
Net current liabilities		<u>(18,631)</u>	<u>(20,799)</u>	<u>(23,891)</u>	<u>(24,776)</u>
Total assets less current liabilities		<u>94,269</u>	<u>89,765</u>	<u>53,358</u>	<u>51,453</u>
Creditors: amounts falling due after more than one year	15	(495)	(532)	(495)	(532)
Net assets excluding pension liability		<u>93,774</u>	<u>89,233</u>	<u>52,863</u>	<u>50,921</u>
Net pension liability	26	(8,427)	(4,407)	(8,427)	(4,407)
Net assets including pension liability		<u>85,347</u>	<u>84,826</u>	<u>44,436</u>	<u>46,514</u>
ENDOWMENTS					
Expendable	16	7,946	6,413	–	–
Permanent	16	17,986	17,622	–	–
RESERVES					
General		14,651	10,856	(328)	(3,421)
Pension	26	(8,427)	(4,407)	(8,427)	(4,407)
Revaluation		32,143	32,143	32,143	32,143
Total	17,28	<u>64,299</u>	<u>62,627</u>	<u>23,388</u>	<u>24,315</u>
Deferred capital grants	23,28	<u>21,048</u>	<u>22,199</u>	<u>21,048</u>	<u>22,199</u>
Total funds		<u>85,347</u>	<u>84,826</u>	<u>44,436</u>	<u>46,514</u>

Approved by the Governing Body and authorised for issue on 21 November 2012.

Sir John Ritblat
Chairman

Sir Andrew Likierman
Dean

Consolidated cash flow statement

for the year ended 31 July 2012

	Notes	2012 £'000	2011 £'000
Net cash inflow from operating activities	18	7,338	6,706
Returns on investments and servicing of finance	19	691	677
Capital expenditure and financial investment	20	(2,453)	(428)
Management of liquid resources	21	—	—
Increase in cash in the year		<u>5,576</u>	<u>6,955</u>
Reconciliation of net cash flow to investment in net funds / (debt)			
Increase in cash in the year		5,576	6,955
Cash outflow from liquid resources		—	—
Movement in net funds in the year		<u>5,576</u>	<u>6,955</u>
Net funds/(debt) at 1 August		<u>6,116</u>	<u>(839)</u>
Net funds at 31 July	22	<u>11,692</u>	<u>6,116</u>

Notes to the financial statements

31 July 2012

1 Academic fees

	Notes	2012 £'000	2011 £'000
MBA		21,851	20,176
Masters in Management		3,546	3,186
Sloan Fellowship		2,673	2,676
Executive MBA		14,630	13,579
EMBA-Global / Global Asia		4,279	4,086
Masters in Finance		6,212	6,086
PhD Programme		1,103	1,053
Executive Education Open Programmes		18,434	16,673
Executive Education Custom Programmes		16,663	16,164
		<u>89,391</u>	<u>83,679</u>

2 Funding Council grants

		2012 £'000	2011 £'000
Mainstream teaching funds		135	288
Mainstream research funds		3,531	3,620
Higher Education Innovation Fund		2,850	1,900
Released from deferred capital grants			
Buildings	23	411	411
Equipment	23	507	538
		<u>7,434</u>	<u>6,757</u>

3 Other income

		2012 £'000	2011 £'000
Donations received		5,164	6,765
Less: endowments retained in reserves	16	(2,469)	(4,884)
Donations income		<u>2,695</u>	1,881
Released from deferred capital grants	23	440	440
Catering and accommodation		2,233	3,004
Other general income		2,013	1,500
		<u>7,381</u>	<u>6,825</u>

4 Endowment and investment income

	Notes	2012 £'000	2011 £'000
Income from expendable endowments	16	404	287
Income from permanent endowments	16	182	131
Other investment income		227	374
Other interest received		88	44
		<u>901</u>	<u>836</u>

5 Governors' remuneration

The governors of the School do not receive any remuneration for their services as governors and no expenses were paid. Those among them who also hold academic or executive posts within the School are remunerated for their services in line with the School's normal practice.

6 Staff costs

	2012 £'000	2011 £'000
Wages and salaries	42,783	40,887
Social security costs	4,291	3,799
Other pension costs	4,499	4,506
SPS pension contribution less current service cost	(295)	(328)
	<u>51,278</u>	<u>48,864</u>
Emoluments of the Dean	2012 £'000	2011 £'000
Salary	338	330
Pension	54	53
Benefits	1	1
Teaching points earned	–	1
Total aggregate emoluments of the Dean	<u>393</u>	<u>385</u>

Notes to the financial statements *continued*

31 July 2012

6 Staff costs *continued*

Average staff numbers by major category

	Notes	2012	2011 (Re-stated)
		Numbers	Numbers
Academic including research		102	100
Other		541	528
		<u>643</u>	<u>628</u>

The number of staff reported above is the average over each year on a FTE basis. The 2010/11 figure previously reported 653 staff (Academic and Research- 107; Other- 546), the average number of staff over the year.

Total earnings of higher paid staff (excluding the Dean)

Total earnings include salary and compensation for teaching additional loads as well as receiving payments by a quasi-subsiary, the Centre for Management Development Company Limited, for developing and delivering custom programmes for corporate clients but excludes pensions. Both these elements can be subject to significant variation each year.

Total earnings in the individual bands were as follows:

£100,000 - £109,999: 9, £110,000 - £119,999: 18, £120,000 - £129,999: 11, £130,000- £139,999: 2, £140,000 - £149,999: 6, £150,000 - £159,999: 12, £160,000 - £169,999: 9, £170,000 - £179,999: 9, £180,000 - £189,999: 9, £190,000 - £199,999: 4, £200,000 - £209,999: 2, £210,000 - £219,999: 6, £220,000 - £229,999: 2, £230,000- £239,999: 2, £240,000 - £249,999: 2, £250,000 - £259,999: 3, £260,000 - £269,999: 2, £270,000 - £279,999: 1, £290,000 - £299,999: 1, £300,000 - £309,999: 1, £330,000 - £339,999: 3, £430,000 - £439,999: 1, £440,000 - £449,999: 2, £460,000 - £469,999: 2, £500,000 - £509,000: 1

For comparison purposes, total earnings in 2010/11 were as follows:

£100,000 - £109,999: 12, £110,000 - £119,999: 13, £120,000 - £129,999: 7, £130,000- £139,999: 7, £140,000 - £149,999: 14, £150,000 - £159,999: 4, £160,000 - £169,999: 6, £170,000 - £179,999: 8, £180,000 - £189,999: 3, £190,000 - £199,999: 4, £200,000 - £209,999: 5, £210,000 - £219,999: 4, £220,000 - £229,999: 2, £230,000- £239,999: 1, £240,000 - £249,999: 2, £250,000 - £259,999: 1, £260,000 - £269,999: 2, £270,000 - £279,999: 2, £280,000 - £289,999: 3, £310,000 - £319,999: 1, £320,000 - £329,999: 1, £330,000 - £339,999: 1, £340,000- £349,999: 1, £370,000 - £379,999: 2, £380,000- £389,999: 1

	2012 £'000	2011 £'000
Compensation for loss of office to senior staff earning in excess of £100,000 per annum	–	28

7 Other operating expenses

	2012 £'000	2011 £'000
External teaching	10,730	9,968
Teaching support	4,640	4,562
Bought in teaching	5,084	5,361
Marketing	5,374	5,470
Technology	2,757	2,011
Premises and utilities	6,195	5,475
Catering and accommodation	6,830	6,252
Other overheads	7,564	6,474
Interest payable	126	141
	<u>49,300</u>	<u>45,714</u>

8 Taxation

	2012 £'000	2011 £'000
UK corporation tax at 25.33% (2011: 27.33%)	—	—
	<u>—</u>	<u>—</u>

9 Tangible assets

CONSOLIDATED	Land and Buildings		Assets in course of construction	Facility improve- ments	Furniture and equipment	Total
	Freehold	Long leasehold				
Cost or valuation	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2011	19,850	47,000	7,585	975	7,007	82,417
Additions	-	-	4,446	94	592	5,132
Transfer from AICC	-	-	(2,675)	2,235	440	-
Impairment	-	-	(193)	-	-	(193)
At 31 July 2012	<u>19,850</u>	<u>47,000</u>	<u>9,163</u>	<u>3,304</u>	<u>8,039</u>	<u>87,356</u>
Depreciation						
At 1 August 2011	-	-	-	673	5,677	6,350
Charges for the year	342	2,284	-	388	909	3,923
At 31 July 2012	<u>342</u>	<u>2,284</u>	<u>-</u>	<u>1,061</u>	<u>6,586</u>	<u>10,273</u>
Net book value						
At 31 July 2012	<u>19,508</u>	<u>44,716</u>	<u>9,163</u>	<u>2,243</u>	<u>1,453</u>	<u>77,083</u>
At 31 July 2011	<u>19,850</u>	<u>47,000</u>	<u>7,585</u>	<u>302</u>	<u>1,330</u>	<u>76,067</u>

On 31 July 2011 the freehold and long leasehold land and buildings were re-valued at £68.3 million on the basis of existing use value by Drivers Jonas, Chartered Surveyors. This includes £1.5m for one property which is currently recorded under assets in the course of construction. No revaluation took place at 31 July 2012.

The School does not ordinarily capitalise its heritage assets. Within the Anniversary Trust one heritage asset has been capitalised, at the value on the date the piece was acquired. In addition, the School has been gifted a number of other items of artwork considered to be heritage assets but has not capitalised these as in aggregate they are not deemed to be of sufficient material value to affect the presentation of the financial statements. The total insurance value of these items is £350,000.

Notes to the financial statements *continued*

31 July 2012

9 Tangible assets *continued*

SCHOOL	Land and Buildings		Assets in course of construction	Facility improve- ments	Furniture and equipment	Total
	Freehold	Long leasehold				
Cost or valuation	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2011	19,850	47,000	7,585	975	6,968	82,378
Additions	–	–	4,446	94	592	5,132
Transfer from AICC	–	–	(2,675)	2,235	440	–
Impairment	–	–	(193)	–	–	(193)
At 31 July 2012	19,850	47,000	9,163	3,304	8,000	87,317
Depreciation						
At 1 August 2011	–	–	–	673	5,677	6,350
Charge for the year	342	2,284	–	388	909	3,923
At 31 July 2012	342	2,284	–	1,061	6,586	10,273
Net book value						
At 31 July 2012	19,508	44,716	9,163	2,243	1,414	77,044
At 31 July 2011	19,850	47,000	7,585	302	1,291	76,028

Long leasehold land and buildings comprise assets that are the subject of a restricted use covenant. Under the terms of this covenant the land and buildings may only be used for educational purposes.

If these assets were carried at historical cost less depreciation, their carrying value at the balance sheet date would have been as follows:

	2012 £'000	2011 £'000
Freehold	14,643	14,985
Long leasehold	7,769	10,053
Facility improvements	15,482	15,870
	37,894	40,908

10 Other investments

CONSOLIDATED

	Other investments total £'000
At 1 August 2011	10,210
Increase in market value	624
Disinvestment	(1,259)
At 31 July 2012	<u>9,575</u>

SCHOOL

	Subsidiary companies £'000	Other investments £'000	Total £'000
At 1 August 2011	91	110	201
Increase in market value	—	4	4
At 31 July 2012	<u>91</u>	<u>114</u>	<u>205</u>

Refer to note 12 for further details in the investment portfolio.

The School's holding in London Business School Trust Company Limited, shown at cost, represents 4 ordinary shares of £1 each, being the total issued share capital of the company. The company continues to be dormant. Sir John Ritblat, Chairman of Governing Body, holds two shares as nominee for the School. The remaining two shares are held by Sir Andrew Likierman as nominee for the School. None of the other governors had any interest in the share capital of this company.

The School's holding in London Business School Trading Company Limited, shown at cost, represents 91,304 (2011: 91,304) ordinary shares of £1 each, being the total issued share capital of the company.

The quasi-sub subsidiary company Sussex Place Ventures Limited has also been included in the consolidated financial statements, together with its subsidiary companies:

- Sussex Place (General Partner) Limited
- Sussex Place II (General Partner) Limited
- Combined London Colleges (General Partner) Limited
- Sussex Place (Founder Partner) Limited

The financial statements of all subsidiaries are available from the Secretary, London Business School, Regent's Park, London NW1 4SA.

Notes to the financial statements *continued*

31 July 2012

11 Investments in associates

The School has an investment interest in GERA. GERA was incorporated on 3 February 2005 and is a company limited by guarantee. GERA advances education and learning in the field of entrepreneurship practice and policy development including (but not limited to) the provision and conduct of an international programme of research and the dissemination of the results of such research. GERA is a charitable company. Its financial statements are prepared under the Charities Statement of Recommended Practice. GERA is not funded by restricted grants and has been accounted for under the gross equity method. The School's share of its operating surplus has been recognised in the income and expenditure account.

12 Endowment assets

Endowment investments are those investments held within the portfolio which represent restricted funds held within the Anniversary Trust. Both endowment and other investments are held in a combined portfolio within the Anniversary Trust. They are managed by Blackrock Asset Management Ireland Limited. They are shown in the balance sheet at market value.

	Notes	2012 £'000	2011 £'000
Market value as at 31 July			
Endowments		25,932	24,035
Other investments	10	9,575	10,210
		<u>35,507</u>	<u>34,245</u>
Book cost		<u>29,663</u>	<u>29,663</u>
Investments are held in the following funds:			
		2012 £'000	2011 £'000
UK equities		7,325	7,580
Corporate bonds		11,011	9,958
Fixed interest bonds		9,370	8,477
Overseas equities		7,592	8,019
Liquidity funds		209	211
		<u>35,507</u>	<u>34,245</u>
Investments held that represented a holding greater than 5% of the total investment held:			
		2012 £'000	
Charitrak UK Equity Index Fund Inc		7,325	
BlackRock Europe Ex-UK Index Fund EUR Fund Flexible Distributing Class		2,552	
BlackRock North American Index Fund USD Flexible Distributing Class		2,740	
BlackRock GiltTrack Fund Dist		9,370	
BlackRock UK Corporate Bond Index Fund		11,011	
Movement in endowment assets			
		2012 £'000	2011 £'000
At 1 August		24,035	19,548
New endowments invested		2,469	4,884
Increase in market value of investments		645	1,191
Decrease in cash balance held for endowment funds		(1,217)	(1,588)
At 31 July		<u>25,932</u>	<u>24,035</u>

13 Debtors

	Consolidated		School	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade debtors	5,994	6,608	2,342	1,094
Prepayments and accrued income	3,053	2,724	772	751
Amounts owed by subsidiary undertakings	–	–	2,193	2,990
Other debtors	528	598	527	595
	<u>9,575</u>	<u>9,930</u>	<u>5,834</u>	<u>5,430</u>

14 Creditors: amounts falling due within one year

	Consolidated		School	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Amounts owed to subsidiary undertakings	–	–	3,219	920
Course payments received in advance	17,584	16,578	17,584	16,578
Trade creditors	2,159	2,368	1,828	2,002
Social security and other taxation	1,745	1,653	1,740	1,554
Accruals and deferred income	18,415	16,248	16,797	14,526
Other creditors	104	103	57	67
	<u>40,007</u>	<u>36,950</u>	<u>41,225</u>	<u>35,647</u>

15 Creditors: amounts falling due after more than one year

	Consolidated		School	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Accruals and deferred income	<u>495</u>	<u>532</u>	<u>495</u>	<u>532</u>

Notes to the financial statements *continued*

31 July 2012

16 Endowments

	Unrestricted permanent £'000	Restricted permanent £'000	Restricted expendable £'000	2012 Total £'000	2011 Total £'000
At 1 August 2011					
Capital	1,134	15,795	6,024	22,953	16,878
Accumulated Income	–	693	389	1,082	2,670
	<u>1,134</u>	<u>16,488</u>	<u>6,413</u>	<u>24,035</u>	<u>19,548</u>
New endowments	5	407	2,057	2,469	4,884
Investment income	–	182	404	586	418
Expenditure	–	(182)	(1,621)	(1,803)	(1,792)
Increase in market value of investments	42	603	–	645	1,191
Transfers to deferred capital grants	–	–	–	–	(214)
Other transfers	–	(693)	693	–	–
At 31 July 2012	<u>1,181</u>	<u>16,805</u>	<u>7,946</u>	<u>25,932</u>	<u>24,035</u>
Represented by:					
Capital	1,181	16,805	7,517	25,503	22,953
Accumulated income	–	–	429	429	1,082
	<u>1,181</u>	<u>16,805</u>	<u>7,946</u>	<u>25,932</u>	<u>24,035</u>
Analysis by type of purpose:					
Chair funds	–	9,129	464	9,593	9,087
Scholarship funds	–	4,981	2,114	7,095	6,224
Infrastructure funds	–	–	882	882	233
Other funds	1,181	2,695	4,486	8,362	8,491
	<u>1,181</u>	<u>16,805</u>	<u>7,946</u>	<u>25,932</u>	<u>24,035</u>

Chair funds comprise monies received from various donors to fund a chair in their name at London Business School.

Scholarship funds comprise monies received to support scholarships to students.

Infrastructure funds comprise monies received to be expended for specific buildings projects.

Other funds comprise monies received for any other specified purpose.

All permanent endowments are represented by investments.

16 Endowments *continued*

Surplus for the year transferred from accumulated income in endowment funds:

	2012 £'000	2011 £'000
Expenditure	(1,803)	(1,792)
Investment Income	586	418
Surplus for the year	(1,217)	(1,374)

Major endowments

Major funds are classified as any funds with a balance greater than £1m at the end of the year.

Restricted permanent and expendable endowments include seven major individual funds.

The movements on these funds for the year were as follows:

	The Adecco Chair £'000	The Tony and Maureen Wheeler Chair in Entrepreneurship £'000	The Donald Gordon Chair in Entrepreneurship £'000	The Birla Centre £'000
At 1 August 2011	2,087	2,358	2,761	3,126
New endowments	-	-	-	-
Investment income	65	73	89	97
Expenditure	(65)	(33)	(60)	(97)
Other transfers	-	-	-	-
Increase in market value of investment	78	87	104	90
At 31 July 2012	2,165	2,485	2,894	3,126

	LBS Endowment General £'000	The Vodafone Group Foundation Scholarships- The Sir Christopher Gent Awards £'000	Dubai Chair in Innovation Scholarship £'000
At 1 August 2011	1,010	2,027	1,082
New endowments	5	-	-
Investment income	32	60	34
Expenditure	(32)	(60)	-
Other transfers	-	-	-
Increase in market value of investment	38	70	39
At 31 July 2012	1,053	2,097	1,155

Notes to the financial statements *continued*

31 July 2012

17 Reserves and endowments

CONSOLIDATED	Expendable endowments	Permanent endowments	General reserves (Re-stated)	Pension reserve	Revaluation reserve	Total (Re-stated)
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2011	6,413	17,622	10,856	(4,407)	32,143	62,627
Net movement	1,533	364	3,795	(4,020)	–	1,672
At 31 July 2012	7,946	17,986	14,651	(8,427)	32,143	64,299
SCHOOL	Expendable endowments	Permanent endowments	General reserves (Re-stated)	Pension reserve	Revaluation reserve	Total (Re-stated)
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2011	–	–	(3,421)	(4,407)	32,143	24,315
Net movement	–	–	3,093	(4,020)	–	(927)
At 31 July 2012	–	–	(328)	(8,427)	32,143	23,388

Refer to note 28 for further details on the prior year adjustment.

18 Reconciliation of operating deficit to net cash flow from operating activities

	Notes	2012 £'000	2011 £'000
Surplus/(deficit) after depreciation of tangible fixed assets and before tax		2,069	(602)
Depreciation	9	3,923	4,036
Impairment of tangible fixed assets	9	193	–
Deferred capital grants released	23	(1,358)	(1,389)
Pension contribution less current service cost	26	(295)	(328)
(Increase) in stock		(4)	(49)
Decrease in debtors		439	97
Increase in creditors		3,146	4,076
Endowment and investment income	4	(901)	(836)
Interest payable	7	126	141
Loss on revaluation of properties		–	1,560
Net cash inflow from operating activities		7,338	6,706

19 Returns on investments and servicing of finance

	Notes	2012 £'000	2011 £'000
Income from endowments		586	418
Interest received		231	400
Interest paid		(126)	(141)
Net cash inflow from returns on investments and servicing of finance		691	677

20 Capital expenditure and financial investment

	Notes	2012 £'000	2011 £'000
Purchase of tangible fixed assets	9	(5,132)	(5,313)
New endowments received	16	2,469	4,884
Cash movement on investments		3	(128)
Deferred capital grants received	23	207	129
Net cash outflow from capital expenditure and financial investment		(2,453)	(428)

21 Management of liquid resources

	Notes	2012 £'000	2011 £'000
Withdrawal of deposits		–	–

22 Analysis of change in net funds

	At 1 August 2011 £'000	Cash flow £'000	At 31 July 2012 £'000
Cash at bank and in hand	6,116	5,576	11,692
Net funds	6,116	5,576	11,692

Notes to the financial statements *continued*

31 July 2012

23 Deferred capital grants

	Consolidated and School		
	HEFCE £'000	Other £'000	Total £'000
At 31 July 2011 (as re-stated)			
Buildings	2,273	16,578	18,851
Equipment	3,089	259	3,348
Total	<u>5,362</u>	<u>16,837</u>	<u>22,199</u>
Cash received			
Equipment	207	–	207
Total	<u>207</u>	<u>–</u>	<u>207</u>
Released to income and expenditure			
Buildings	(411)	(435)	(846)
Equipment	(507)	(5)	(512)
Total	<u>(918)</u>	<u>(440)</u>	<u>(1,358)</u>
At 31 July 2012			
Buildings	1,862	16,143	18,005
Equipment	2,789	254	3,043
Total	<u>4,651</u>	<u>16,397</u>	<u>21,048</u>

The opening balance for the deferred capital grant has been restated as set out in note 28.

24 Capital commitments

Capital expenditure amounting to £0.4 million was contracted for at 31 July 2012 (2011: £1.2 million).

25 Lease commitments

	Land and buildings 2012 £'000	Land and buildings 2011 £'000	Plant and machinery 2012 £'000	Plant and machinery 2011 £'000
Annual rentals under operating lease commitments are as follows:				
Expiring within 1 year	15	–	–	–
Expiring within 2-5 years	304	360	60	63
Expiring in more than 5 years	143	214	–	–
	<u>462</u>	<u>574</u>	<u>60</u>	<u>63</u>

26 Pension schemes

(a) Pension scheme details

The School makes contributions on behalf of members to two principal pension schemes and one closed scheme. Firstly, the School is a participating institution of the Universities Superannuation Scheme (USS). This is an open defined benefit scheme, with benefits accrued on either a final salary basis or career revalued earnings basis, according to specific membership criteria. The underlying assets of this scheme are managed and governed by the USS Trustee Board, which is an entirely separate entity to the School. Secondly, the School also sponsors a contract-based defined contribution scheme, provided through Scottish Widows. Lastly, the School sponsors a legacy defined benefit pension scheme for staff, the London Business School Pension Scheme (SPS), which has been closed to future accrual since 1 August 2010. The assets are held in separate trustee-administered funds.

In July 2010 the Government announced that statutory revaluation in deferment and increases in payment would in the future be based on the Consumer Prices Index (CPI) rather than, as previously, the Retail Prices Index (RPI). The effect of this on a scheme depends on the interaction of the statutory requirements and its rules. The School and the Trustees of the SPS have reviewed the rules and associated members' literature and concluded that, where relevant, revaluation in deferment will be based on CPI in the future but that increases in payment will remain linked to RPI.

Key assumptions and summary data are as follows:

Latest actuarial valuations

Assumptions

	USS 31 March 2011	SPS 1 August 2009
Investment return (per annum)	6.1%	7.0%
Salary scale increases (per annum)	4.4%	4.6%
Pension increases in payment (per annum)	2.6%	3.5%
RPI price inflation (per annum)	3.4%	3.6%
CPI price inflation (per annum)	2.6%	N/A

Actuarial valuation data

	£million	£'000
Market value of assets	32,434	6,904
Market value of past service liabilities	(35,344)	(9,105)
Deficit of assets	(2,910)	(2,201)
Proportion of members' accrued benefits covered by assets	92%	76%

Contribution rates

	USS	SPS
Employer's rate for the period 1 August to 30 September 2009	14.0%	17.6%
Employer's rate for the period 1 October 2009 to 31 July 2010	16.0%	17.6%
Employer's rate for the period 1 August 2010 to 31 July 2012	16.0%	N/A

Pension cost

The total pension cost for the School for the year ended was:

	2012 £'000	2011 £'000
Contributions to USS defined benefit scheme	4,025	3,502
Contributions to SPS defined benefit scheme	375	442
Contributions to defined contribution scheme	99	72
	<u>4,499</u>	<u>4,016</u>

Notes to the financial statements *continued*

31 July 2012

26 Pension schemes *continued*

(b) USS – FRS 17

The School participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

The appointment of directors to the board of the trustee is determined by the trustee company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; and a minimum of two and a maximum of four are co-opted directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and of his estimate of the funding level at 31 March 2012 are also included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for 3 years following the valuation then 2.6% per annum thereafter.

Standard mortality tables were used as follows:

Male members' mortality	S1NA ["light"] YoB tables? No age rating
Female members' mortality	S1NA ["light"] YoB tables? Rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further improvements in mortality rates the CMI 2009 projections with a 1.25% pa long term rate were also adopted. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

At the valuation date, the value of the assets of the scheme was £32,433 million and the value of the scheme's technical provisions was £35,343 million indicating a shortfall of £2,910 million. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

26 Pension schemes *continued*

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 93% funded; on a buy-out basis (i.e. assuming the scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the on-going cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not as high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liability of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

As at the valuation date the Scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of Salaries.

Following UK government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically these increases had been based on the Retail Prices Index measure of price inflation.

Since the previous valuation as at 31 March 2008 there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

New entrants

Other than in specific, limited circumstances, new entrants are now provided on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.

Normal pension age

The Normal pension age was increased for future service and new entrants, to age 65.

Flexible retirement

Flexible retirement options were introduced.

Member contributions increased

Contributions were to 7.5% p.a. and 6.5% p.a. for FS Section members and CRB Section members respectively.

Notes to the financial statements *continued*

31 July 2012

26 Pension schemes *continued*

Cost sharing

If the total contribution level exceeds 23.5% of salaries per annum, the employers will pay 65% of the excess over 23.5% and members would pay the remaining 35% to the fund as additional contributions.

Pension increase cap

For service derived after 30 September 2011, USS will match increases in official pensions for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

Since 31 March 2011 global investment markets have continued to fluctuate and following its peak in September 2011 inflation has declined rapidly towards the year end, although the market's assessment of inflation has remained reasonably constant. The actuary has estimated that the funding level as at 31 March 2012 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are cited as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2012 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.9% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2012 was 74%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 56%.

Surpluses or deficits which arise at future valuations may impact on the School's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities on a technical provisions basis as at the date of the last triennial actuarial valuation are set out below:

Assumption	Change in assumption	Impact on shortfall
Investment return	Decrease by 0.25%	Increase by £1.6 billion
The gap between RPI and CPI	Decrease by 0.25%	Increase by £1 billion
Rate of salary growth	Increase by 0.25%	Increase by £0.6 billion
Members live longer than assumed	1 year longer	Increase by £0.8 billion
Equity markets in isolation	Fall by 25%	Increase by £4.6 billion

USS is a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

26 Pension schemes *continued*

The trustees believe that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a major exposure to equities through portfolios that are diversified both geographically and by sector. The trustees recognise that it would be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee needs to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and considers the views of the employers. The positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the on-going flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate although the trustee is mindful of the desirability of keeping the funding level on the scheme's technical provisions close to or above 100% thereby minimizing the risk of the introduction of deficit contributions. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

At 31 March 2012, USS had over 145,000 active members and the School had 372 active members participating in the scheme.

The total pension cost for the School was £4,025,000 (2011: £3,502,000). This includes £Nil (2011: £1,321) outstanding contributions at the balance sheet date. The contribution rate payable by the School was 16% of pensionable salaries.

(c) SPS – FRS 17

For the SPS scheme FRS17 was adopted in full for the first time for the year ending 31 July 2006. The administrators of the SPS scheme have identified the School's assets and liabilities to arrive at the present value of FRS 17 liabilities and assets as follows:

The main actuarial assumptions used to value the liabilities at the balance sheet date are:

	31st July 2012	31st July 2011
Discount rate for liabilities	4.2%	5.2%
Price inflation (RPI)	3.1%	3.8%
Price inflation (CPI)	2.1%	3.1%
Future increases to pensions in deferment	2.1%	3.1%
Future increases to pensions in payment	3.6%	3.6%
Mortality table	PCMA00/PCFA00, year of birth, medium cohort projection with 1% underpin	PCMA00/PCFA00, year of birth, medium cohort projection with 1% underpin
Expected return on assets	5.4%	6.2%
Value of liabilities and resulting deficit		
	31st July 2012 £'000	31st July 2011 £'000
Total market value of assets	10,032	9,461
Present value of liabilities	(18,459)	(13,868)
Net pension liability	<u>(8,427)</u>	<u>(4,407)</u>

Notes to the financial statements *continued*

31 July 2012

26 Pension schemes *continued*

Changes in the fair value of scheme assets are as follows:

	31st July 2012 £'000	31st July 2011 £'000
Opening value of assets	9,461	8,339
Expected return	591	546
Asset gain	(173)	335
Contributions (employer and member)	340	334
Benefits paid	(142)	(87)
Expenses paid from the Scheme	(45)	(6)
	<hr/>	<hr/>
Closing value of assets	10,032	9,461

The total value of the assets is divided between the following main asset classes:

	31st July 2012 £'000	31st July 2011 £'000
Equities	4,314	4,151
Bonds	3,612	3,352
Property	2,106	1,958
	<hr/>	<hr/>
Total	10,032	9,461

Changes in the present value of the defined benefit liabilities are:

	31st July 2012 £'000	31st July 2011 £'000
Opening value of liabilities	13,868	12,752
Interest cost	717	686
Service cost (including member contributions)	–	–
Experience loss/ (gain)	595	(162)
Change of assumptions loss/ (gain)	3,421	679
Loss on settlements and curtailments	–	–
Benefits paid	(142)	(87)
	<hr/>	<hr/>
Closing value of liabilities	18,459	13,868

26 Pension schemes *continued*

The amounts recognised in the income and expenditure account are:

	31st July 2012 £'000	31st July 2011 £'000
Interest on liabilities	717	686
Expected return on assets	(591)	(546)
Expenses paid from the Scheme	45	6
Total expense	<u>171</u>	<u>146</u>

The amounts recognised in the statement of recognised gains and losses are:

	31st July 2012 £'000	31st July 2011 £'000
Actual return less expected return on pension scheme assets	(173)	335
Experience gains arising on the scheme liabilities	(595)	162
Changes in assumptions underlying the present value of the scheme liabilities	(3,421)	(679)
Total recognised loss	<u>(4,189)</u>	<u>(182)</u>

History of experience of gains and losses

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Present value of liabilities	18,459	13,868	12,752	12,861	12,523
Total market value of assets	10,032	9,461	8,339	6,881	6,860
Deficit	<u>(8,427)</u>	<u>(4,407)</u>	<u>(4,413)</u>	<u>(5,980)</u>	<u>(5,663)</u>
Experience gain / (loss) on liabilities	(595)	162	383	630	524
Experience gain / (loss) on assets	(173)	335	732	(774)	(1,087)

Notes to the financial statements *continued*

31 July 2012

27 Related party transactions

During the year some governors and senior managers earned consultancy fees from a quasi-subsiary of the School, the Centre for Management Development Company Limited.

	2012 £	2011 £
Professor Nirmalya Kumar	19,000	44,500
Professor Randall Peterson	25,000	7,500
Professor Madan Pillutla	37,500	54,500
Professor Richard Portes	2,500	–
Professor Stephen Schaeffer	41,000	–
Professor Andrew Scott	112,000	128,000

There were no outstanding balances at the end of the year relating to the above individuals (2011: £9,000 payable to Professor Scott). In addition to the above, Professor Peterson is a partner of TalentSage LLC. In 2011/12, the School paid £68,000 (2010/11: £16,000) to it for personal assessment services provided during the period Professor Peterson was a member of the Governing Body. At the year end, no balance was outstanding with TalentSage LLC (2010/11: £5,600 owed by TalentSage).

The President of the London Business School Students' Association (LBSSA) is also a member of the Governing Body. During the year, the School made contributions to LBSSA of £235,000 (2010/11: £275,000) and charged LBSSA for catering services amounting to £129,000 (2010/11: £146,000). At the year end, the School had an outstanding due from LBSSA of £41,000 (2010/11: School owed £9,000).

Sir John Ritblat, Chairman of the Governing Body, is Chairman of the Advisory Board to Delancey Real Estate Asset Management (DREAM). In 2011/12, the School paid £192,000 (2010/11: £240,000) to DREAM for services provided to lead the development of the main campus and the acquisition of new teaching facilities in the local area. At the year end, the School owed Delancey Real Estate Asset Management £nil (2010/11: £24,000).

Sir John Ritblat is also Non Executive Director of Colliers International. In 2011/12, the School paid £114,000 (2010/11: £188,000) to Colliers International for estates project management and the secondment of a member of staff in the capacity of Head of Estates Services. At the year end, there were no balances outstanding.

The Honourable Apurv Bagri is a Commissioner of the Crown Estates Paving Commission. In 2011/12, the School paid £18,000 (2010/11: £23,000) to the Crown Estates for the lease of the main campus site at Sussex Place. At the year end, there were no balances outstanding.

The Honourable Apurv Bagri is also Chairman of the Royal Parks. In 2011/12, the School paid £900 (2010/11: £2,000) to the Royal Parks for administration fees. At the year end, there were no balances outstanding.

Periodically in the year several members of the Governing Body made donations to the School. These donations were made to a controlled subsidiary of the School and were used to meet the objectives of the entity.

As allowed under FRS8 'Related party transactions', transactions and balances between group entities have not been disclosed as they have been eliminated on consolidation.

Connected Charitable Institutions

Charities with income over £100,000:

London Business School has a quasi-subsiary and connected charity in London Business School Anniversary Trust, the results of which are consolidated within these accounts. The purpose of London Business School Anniversary Trust is to raise funding for the School to support scholarships, permanent chairs and develop the infrastructure of the School, as well as build a to permanent endowment for the School.

The movement in the year on the funds held by London Business School Anniversary Trust was as follows:

Balance at 31 July 2011 £'000	Donations and grants 2012 £'000	Investment Income 2012 £'000	Gain on investments 2012 £'000	Expenditure 2012 £'000	Balance at 31 July 2012 £'000
38,222	3,282	1,666	1,265	(3,659)	40,776

28 Prior year adjustment

a) Background

During the year it was identified that a capital grant was received and deferred many years ago in relation to Taunton Place land and was contained in the balance of deferred capital grants. However, as land is not depreciated the capital grant would remain deferred indefinitely and in accordance with the SORP the capital grant should have been released to the Income and Expenditure account. It has been decided that the prior year balance should be amended accordingly.

The capital grant for the land has been transferred to general reserves, as set out below. There is no impact on Income and Expenditure for the current or prior year.

b) Deferred Capital Grants

	Consolidated and School		
	HEFCE £'000	Other £'000	Total £'000
At 1 August 2011 (as previously reported)			
Buildings (including Taunton Place land)	2,273	18,079	20,352
Equipment	3,089	259	3,348
Total	<u>5,362</u>	<u>18,338</u>	<u>23,700</u>
Released to general reserves			
Taunton Place land	–	(1,501)	(1,501)
Total	<u>–</u>	<u>(1,501)</u>	<u>(1,501)</u>
At 1 August 2011 (as re-stated)			
Buildings	2,273	16,578	18,851
Equipment	3,089	259	3,348
Total	<u>5,362</u>	<u>16,837</u>	<u>22,199</u>

c) Net assets

	As at 1 August 2011 (as previously stated) £'000	Adjustment £'000	As at 1 August 2011 (as re-stated) £'000
Consolidated			
General reserves	9,355	1,501	10,856
Other reserves	51,771	–	51,771
	<u>61,126</u>	<u>1,501</u>	<u>62,627</u>
Deferred capital grants	23,700	(1,501)	22,199
Total funds	<u>84,826</u>	<u>–</u>	<u>84,826</u>
School			
General reserves	(4,922)	1,501	(3,421)
Other reserves	27,736	–	27,736
	<u>22,814</u>	<u>1,501</u>	<u>24,315</u>
Deferred capital grants	23,700	(1,501)	22,199
Total funds	<u>46,514</u>	<u>–</u>	<u>46,514</u>

Notes to the financial statements *continued*

31 July 2012

29 Post balance sheet event

On 23 November 2012 the School entered into an initial three-year lease commitment with The Lord Mayor and Citizens of The City of Westminster for Old Marylebone Town Hall (97-113 Marylebone Road, London NW1 5PT). On the date of signing the School incurred rental costs of £650,000 covering the whole of the term of the initial lease and property costs of £841,000 for the first year. A further £841,000 per annum will be incurred in property costs over the remainder of the term of the lease.

Governing Body

Sir John Ritblat (Chairman)

Hon President, The British Land Company PLC

The Honourable Apurv Bagri (Deputy Chairman)

Managing Director, Metdist Group

Mr Nigel D T Andrews

Non-Executive Chairman Old Mutual Asset Management

Mr John Connolly

Chairman, AMEC plc and Chairman, G4S plc

Professor James Dow

Professor of Finance, David Pyott Term Chair in Finance
London Business School

Mr Saeb Eigner

Chair and Chief Executive Officer, Lonworld Group

Dame Amelia Fawcett

Chairman, Guardian Media Group

Mr Julian Franks (appointed 4 October 2012)

Professor of Finance

London Business School

Mr Richard Frost

Secretary to Governing Body

London Business School

Dr Chris Gibson-Smith CBE

Chairman, London Stock Exchange

Professor Malcolm Grant CBE MA LLD

Provost and President, University College London

Ms Orel Hashmatia (appointed 1 August 2012)

Student Association Representative

MBA 2013

London Business School

Mr António Horta-Osório

CEO, Lloyds Banking Group plc

Dr Mo Ibrahim

Chairman and Founder, Mo Ibrahim Foundation

Mr Peter Johnson (appointed 26 March 2012)

Senior Admissions Manager – Masters in Finance

London Business School

Professor Nirmalya Kumar

Professor of Marketing

London Business School

Professor Sir Andrew Likierman

Dean

London Business School

Mr William Mao (retired 31 July 2012)

Student Association Representative

MBA2012

London Business School

Dame Mary Marsh

Director, Clore Social Leadership Programme

Mr Sunil Mittal

Chairman and Group Chief Executive Officer, Bharti Enterprises Ltd

Mr Nigel Morris

Managing Partner, QED Investors LLC

Mr Terry Neill

Director, United Business Media plc

Dame Lucy Neville-Rolfe CMG

Director (Corporate and Legal Affairs), Tesco Plc

Professor Randall Peterson (retired 31 July 2012)

Deputy Dean, Faculty

Professor of Organisational Behaviour

London Business School

Professor Madan Pillutla (retired 3 October 2012)

Professor of Organisational Behaviour

London Business School

Professor Richard Portes CBE FBA

Professor of Economics

London Business School

Professor Stephen Schaefer (appointed 1 August 2012)

Deputy Dean, Faculty

Professor of Finance

London Business School

Professor Andrew Scott

Deputy Dean, Programmes

MBA 2008 Term Chair, Professor of Economics

London Business School

Mr David Simpson (retired 25 March 2012)

Associate Director, Marketing & MBA Admissions

London Business School

Sir Martin Sorrell (retired 26 April 2012)

Chief Executive, WPP

FINANCE COMMITTEE

Reports to Governing Body

Chair:

Mr Terry Neill

Other Non-Executives:

Mr Nigel D T Andrews

Mr John Connolly

Dame Amelia Fawcett

Mr Francis Finlay

Secretary:

Mr David Harrison, Finance Director

In attendance

Executives:

Professor Sir Andrew Likierman, Dean

Ms Catherine Webster, Treasurer

INVESTMENT COMMITTEE

Reports to Finance Committee

Chair:

Ms Catherine Webster, Treasurer

Members:

Professor Sir Andrew Likierman, Dean

Professor Stephen Schaefer

Professor Andrew Scott

Secretary:

Mr David Harrison, Finance Director

In attendance:

Mr Terry Neill

Mr Nigel D T Andrews

Mr Francis Finlay

Mr John Connolly

AUDIT & RISK COMMITTEE

Reports to Governing Body

Chair:

Mr Saeb Eigner

Other Non-Executives:

The Honourable Apurv Bagri

Dr Chris Gibson-Smith CBE

Dame Mary Marsh

Secretary:

Ms Helen Uglow, Deputy Secretary

In attendance:

Executives:

Professor Sir Andrew Likierman, Dean

Mr Richard Frost, School Secretary

Mr David Harrison, Finance Director

REMUNERATION COMMITTEE

Reports to Governing Body

Chair:

Sir John Ritblat

Members:

The Honourable Apurv Bagri

Professor Sir Andrew Likierman, Dean

Mr Terry Neill

Secretary:

Mr Philip Willatt, Director Human Resources

NOMINATIONS COMMITTEE

Reports to Governing Body

Chair:

Sir John Ritblat

Members:

The Honourable Apurv Bagri

Professor Sir Andrew Likierman, Dean

Dr Chris Gibson-Smith CBE

Professor Malcolm Grant

Secretary:

Mr Richard Frost, School Secretary

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