



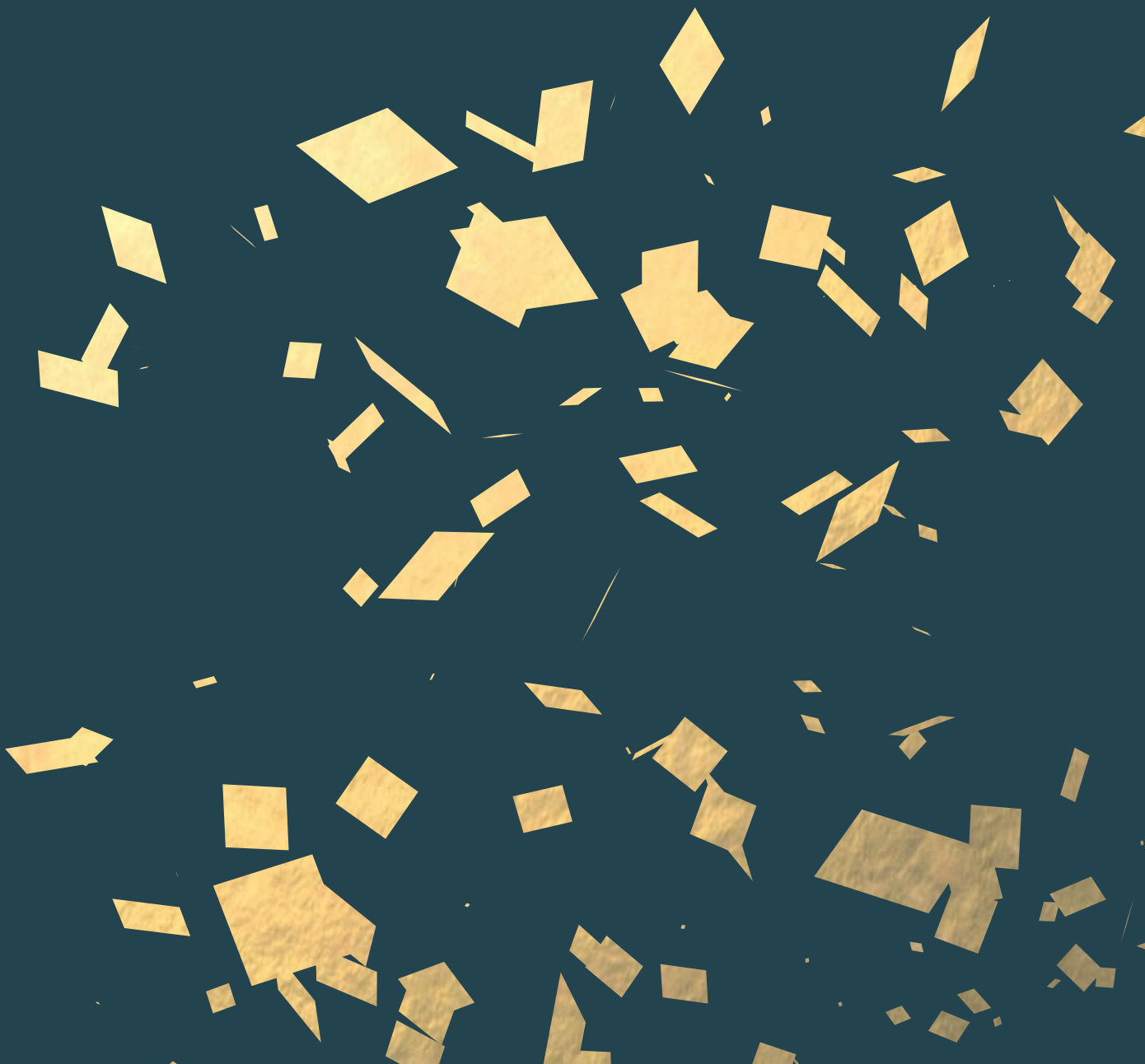
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Celebrating
our past
Inspiring
our future

Financial

Statements

2013 - 2014



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Summary of financial highlights

	2014 £'000	2013 £'000
INCOME		
Academic fees	103,281	93,700
Funding Council grants	7,599	7,501
Research grants and contracts	1,577	1,464
Other income	8,381	7,096
Endowment and investment income	1,094	1,060
Gain on revaluation of properties	1,074	-
Total income	<u>123,006</u>	<u>110,821</u>

EXPENDITURE		
Staff costs	59,865	55,268
Other costs		
External teaching and teaching support	24,226	22,132
Marketing	5,272	5,870
Technology	2,639	2,030
Premises and utilities	6,483	5,748
Catering and accommodation	7,245	6,828
Write off of impaired assets	-	1,326
Depreciation	4,386	4,139
SPS pension scheme charges	109	224
Other overheads (including tax)	9,241	7,862
Total expenditure	<u>119,466</u>	<u>111,427</u>

Share of operating surplus of associate company	85	48
Surplus for the year transferred from accumulated income in endowment funds	1,326	1,455
Surplus for the year	<u>4,951</u>	<u>897</u>

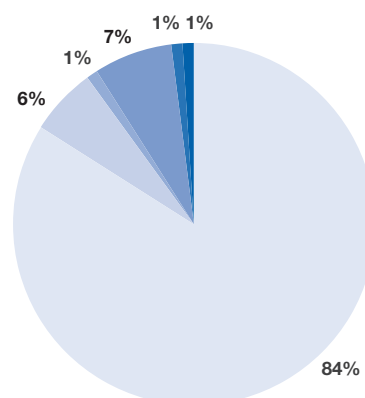
BALANCE SHEET		
Tangible assets	120,262	80,736
Investments	15,490	12,006
Endowment assets	36,785	32,510
Current assets	35,276	22,093
Current liabilities	(52,265)	(43,176)
Long-term liabilities and provisions	(7,895)	(5,834)
Net assets	<u>147,653</u>	<u>98,335</u>

Represented by		
Expendable and permanent endowments	36,785	32,510
General reserves	25,125	17,183
Pension reserve	(7,500)	(5,393)
Revaluation reserve	64,959	32,143
Deferred capital grants	28,284	21,892
	<u>147,653</u>	<u>98,335</u>

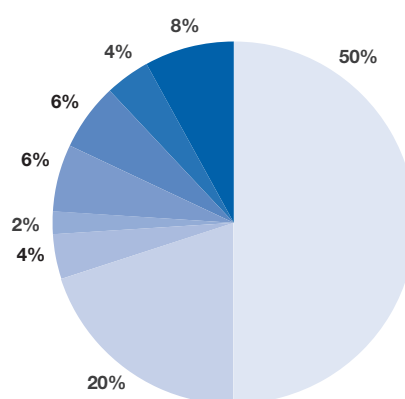
OTHER KEY STATISTICS

Net movement in cash funds for the year	<u>7,978</u>	<u>(194)</u>
Capital expenditure during the year	<u>10,023</u>	<u>9,118</u>

INCOME 2014



EXPENDITURE 2014



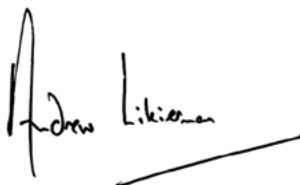
Dean's statement

As the School celebrates its 50th anniversary, we are particularly pleased that this year:

- We were ranked in the top 10 of major rankings for most of our programmes;
- There are now faculty from 31 countries;
- We won our largest ever executive education contract to provide leadership programmes for the Kuwait Petroleum Company;
- We signed an agreement with Fudan University in Shanghai for a dual Masters in Management Programme.
- Our May 2014 Reunion celebration saw record numbers of alumni returning to campus;
- The preliminary works to transform the Old Marylebone Town Hall into the new Sammy Ofer Centre are complete and the main works have begun;
- We had a fantastic start to our first comprehensive fundraising campaign with £69 million raised to date.

The fundraising campaign will build on our first 50 years and strengthen our position as a world-class school. It will allow us to secure 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 the faculty to enable them to continue to deliver their intellectual leadership. And we're investing in the technology infrastructure to help us achieve 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. All are crucial to our success in making that happen.



Professor Sir Andrew Likierman
Dean
London Business School

Chairman's statement

I have pleasure in presenting the Financial Statement of the School for the period ending 31 July 2014.

The School has been extraordinarily successful since it was founded in the 1960s. At that time it was supported by the government, but that support has now reduced to minimal proportions. Meanwhile, as a matter of policy, surpluses have been ploughed back into expanding the School with the priority of adding to its facilities rather than the Endowment Fund.

In order to continue its growth, the School acquired the Old Marylebone Town Hall – now the Sammy Ofer Centre – in 2012. Renovation of this historic building has now started to transform it into what we envisage will be a world-class teaching and learning space.

We are privileged to have Faculty of the highest order at the School. To retain and attract them, we must be able to offer competitive packages, faculty Chairs and money for research. Simultaneously, we must be able to compete with other schools in attracting the very best students by the scholarships we offer, and work on building our endowment.

In all this, the School needs to be able to prosper without diminishing the high standards which have helped make it a global leader in business education.

We are fortunate to have so many people – alumni, faculty and friends alike - support the School and give so freely of their time. Quite simply, we could not manage without them, and I am hugely appreciative of everything they do. Thank you on behalf of the whole School community.



The Hon Apurv Bagri
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 Chairs 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 met four times during the 2013-14 financial year. It has six committees: an Audit and Risk Committee, a Campaign Committee, a Finance Committee, an Estates Committee, a Governance and Nominations Committee and a Remuneration Committee. All of these committees are formally constituted with terms of reference

and comprise mainly lay members, 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 Estates Committee is responsible for the effective oversight of a project to develop Old Marylebone Town Hall, the leasehold for which was acquired by the School in November 2012. The committee meets at least four times a year.

The Finance Committee recommends to the Governing Body the School's annual budget, 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 Governance and Nominations Committee is responsible for making recommendations on the membership of the Governing Body and its committees and for advising the Governing Body on the operation and effectiveness of its corporate governance arrangements.

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 2014 and up to the date of approval of the financial statements, that it is regularly reviewed by the Governing Body and that 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 July 2014 meeting an assessment for the year ended 31 July 2014 was carried out upon receipt of documentation from senior management and the Audit and Risk Committee. At its November 2014 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 2014 to take place. This assessment took into account events since 31 July 2014.

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 2013-14 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

19 November 2014

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 2018-19 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 research produced and disseminated by its faculty, and through the achievements and influence of its degree programme graduates and executive education participants.

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 achievements of its vision.

Achieving the vision – Degree Programmes

The School's degree programme portfolio remained broadly consistent with the previous year with minor increases to the MBA and Sloan programme intake targets and a reduction in the full time Masters in Finance (MiF) intake targets. Recruitment to programmes was broadly at or above target.

In the Financial Times rankings, the MBA rose from fourth to third. The Executive MBA (EMBA) Global fell from second to third, and the EMBA fell from fifteenth to twentieth. The MiF remained unchanged at first. The MBA is the top non-US programme in the most recent (2012) biannual Business Week ranking.

The School was fully re-accredited by the EFMD Quality Improvement System (EQUIS) in March 2014 and the Association of MBAs (AMBA) in June 2014.

The Career Services department was successful in improving employment rates and exceeding targets for all full-time degree programmes.

The target average overall student experience rating of 4.30 out of 5.00 was achieved across all masters degree programmes.

A cross-School China strategy has been agreed and implementation is underway with the launch of a Global Masters in Management (MiM) programme with Fudan University starting in September 2015.

Achieving the vision – Executive Education

The School's open programme portfolio remained broadly unchanged from 2012/13 with revenues of £17.6 million against £17 million in the previous year. Custom programmes revenues were £24.1 million: an increase of £5.2m against the previous year of £18.9 million.

A general management programme review has been undertaken in the year with work on track to implement revised programmes in 2015, and a review of finance, accounting and economics open programmes is also underway.

The average participant feedback rating was on target at 4.50 out of 5.00. Teaching ratings remained an average of 4.51 for open programmes but decreased from 4.54 to 4.45 for custom programmes.

Executive education rankings in the Financial Times fell from twelfth to thirteenth for open programmes and rose from seventeenth to ninth for custom programmes. The overall executive education ranking rose from eleventh to eighth. This was executive education's best performance since 2005. In Business Week, open enrolment programmes rose from fourteenth to fourth and custom programmes rose from eleventh to sixth.

Achieving the vision - Research

Work 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. Progress was made in establishing two new research institutes – the Institute of Asset Management was formally approved and proposals for a new Leadership Institute are well developed.

The Research and Faculty Office continued to obtain external funds to support the School's research activities, successfully securing a number of grants including a European Research Council award for €1.1 million and European Framework Programme collaborative research funding of €2.9 million.

Publication of articles by core faculty in peer-reviewed journals remained consistent at 92 in 2013-14 (94 in 2012-13). Publication in top-tier 'A' list journals stood at 31.

The PhD programme admitted 16 students, bringing the overall cohort to 82. Of the 12 students graduating this year, ten have obtained academic placements, with two receiving offers from schools ranked in the Financial Times top ten.

Developing Resources

Faculty

Nine new members of faculty were recruited to join the School for the 2014-15 year, compared with eleven in

Treasurer's report *continued*

2013-14. Eleven members of faculty left the School at the end of the year, of whom six took up posts at other schools and five left the School's tenure track. The total core faculty headcount, having reached 100 for the first time in 2012/13 and 105 in 2013/14 is expected to fall to 103 in 2014/15.

Work has continued to review the faculty mix as part of the ongoing review of faculty strategy and the introduction of teaching only contracts has been agreed.

Staff

Voluntary staff turnover remained at 16%, and internal applicants filled 23% of vacancies during the year (32% in 2012/13).

The Human Resources department is leading work to evolve an HR strategy which will aim to define operational excellence for staff and what that means in relation to key HR functions. The strategy and associated action plan were agreed in October 2013 and implementation commenced in the areas of recruitment, reward and recognition, learning and development, and employer brand.

The School's diversity objectives embrace gender, disability, age and ethnicity. These are reviewed and discussed not only by our Diversity Working Group, which has senior staff representation, but also by Management and Executive Committees and Management Board, each committee having representation from senior management.

The School is committed to the management of Health and Safety and recognises the importance of setting Health and Safety objectives and standards in relation to all activities, to provide a safe and healthy working environment.

Estates

The School has developed an estates master plan to increase the capacity and quality of its estate. Implementable planning consent was received for the development of the Sammy Ofer Centre in February and the preliminary phase of the building works has been completed. Project completion remains on track for autumn 2016. Work has also commenced on a revised planning scheme for the redevelopment of the main Sussex Place site.

A number of smaller scale projects were completed during the year, and work commenced to convert Lorne Close into offices. A new Estates Management System (ESMS) to support efficient and effective estate management,

planned preventative maintenance and world class customer experience management has also been developed and tendered for implementation in early 2015.

During the year the School spent £4.1 million (£3.5 million in 2012/13) on the Sammy Ofer Centre and a further £1.7 million (£1 million in 2012/13) on fabric and plant maintenance refurbishment and replacement.

The carbon management plan was updated to reflect current energy consumption and savings achieved from initiatives carried out to date. Energy consumption in 2013-14 decreased by 10% against the previous year whilst carbon emissions increased by 3%. This brings the School's overall emissions to 10% below the 2005 baseline.

Technology

Work has continued on a number of major initiatives in line with the School's IT strategy including the migration of key services to an external data centre, the introduction of a new customer relationship management (CRM) solution, and the upgrading of technology within Lecture Theatres and Seminar Rooms. The new School website – london.edu – is scheduled for launch in the autumn of 2014. In addition work has commenced on the introduction of a new telephony solution, the development of an Estates Management System, the development of a Learning Management System and the identification of technologies and suppliers to support initiatives in digital learning.

During the year the School spent £4.2 million (£4.5 million in 2012/13).

Stakeholders

The Hon Apurv Bagri was appointed to succeed Sir John Ritblat as chair of the Governing Body from May 2014. Chris Havemann was elected to succeed Mary Marsh as chair of the International Alumni Council.

Worldwide alumni celebration events were held in 85 cities as part of the School's £100m campaign launch. The alumni initiative to raise 100,000 volunteer hours recorded over 24,000 hours at the year end against a target of 20,000 hours.

Work continued to engage the Global Advisory Council and Office of Distinguished Friends with the aim of recognising the commitment of their memberships to the School and co-ordinating the support they provide for its activities.

Advancement

The School has embarked on a major capital and revenue campaign to raise £100 million. The public launch in September 2013 was celebrated as part of the worldwide alumni celebrations with key events in seven cities across the world. To continue campaign momentum comprehensive event, communication, cultivation and stewardships plans have been put in place, including for the School's 50th anniversary in 2014/15.

During the year total gross committed fundraising income was £36.4 million against a target of £23.0 million.

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 2014 is as follows:

	2014 £'000	2013 £'000
Income	123,006	110,821
Expenditure	(119,466)	(111,427)
Share of operating surplus of associate company	<u>85</u>	<u>48</u>
Surplus / (Deficit) for the year after tax	<u>3,625</u>	<u>(558)</u>
Endowment funds	1,326	1,445
Surplus for the year retained within general reserves	<u>4,951</u>	<u>897</u>
Surplus / (Deficit) for the year after tax	3,625	(558)
Pension fund actuarial (loss) / gain	(2,363)	2,964
Endowments	15,480	8,354
Increase following the revaluation of investments	1,052	3,534
Increase following the revaluation of properties	32,815	-
Transfer to deferred capital gains	<u>(7,685)</u>	<u>(2,150)</u>
Total recognised gains for the year	<u>42,924</u>	<u>12,144</u>

Operating results

We are pleased to report that the School has had another excellent year having achieved an operating surplus of £5.0 million (2013: £0.9 million).

Income in the year grew by £12 million (11%). Fees from Degree Programmes grew from £58 million to £62 million; Executive Education open programme revenues rose from £17 million to £18 million; and custom programme revenues from £19 million to £24 million.

Expenditure in the year grew by around £8 million (7%), Faculty and staff costs increased from £55 million to £60 million (8%), representing a significant proportion of School expenditure. The increase is due to the increased number of staff and faculty during the year, which has risen from an average of 689 to 721 employees to support the growth in the organisation.

Reserves

Reserves have increased by £42.9 million to £119.4 million.

Treasurer's report *continued*

General reserves increased by £7.9 million as a result of both the operating result and the inclusion of unrealised gains on the unrestricted share of the investment portfolio.

Expendable and Permanent Endowments have increased as a result of £15.5 million in new endowments, of which £7.7 million (relating to donations received for the Sammy Ofer Centre) was transferred to deferred capital grants in addition to those amounts released to fund operating expenditure.

The Pension Reserve increased from £ (5.4) million to £ (7.5) million following an update to the interim valuation of the School Pension Scheme.

The Revaluation Reserve increased by £32.8 million in accordance with a revaluation of the Schools properties as at 31st July 2014.

Investment portfolio

The School's investment portfolio is managed by an external fund manager, based on the investment strategy set by the Investment Committee. Returns on funds during the year were in line with market benchmarks.

Investment income totalling £1 million is included in the income and expenditure account for the year, a slight increase from the prior year.

The market value of the investment portfolio at the year end was £50 million compared to £44.2 million at last year end, reflecting an unrealised gain on revaluation of £1.1 million and new investments of £5 million. An additional £1.75 million was invested by the School into a newly established student loan funding scheme.

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 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 that vision.

As the School enters its 50th anniversary year, we are focussed on building on the progress already made in terms of revenue growth, student and participant experience and promoting the London Business School brand.

Significant investment is also now underway to increase the capacity of the School's campus and provide for state of the art facilities, including technology, so that we can grow and remain at the top of the world rankings.

Continuing to invest in our stakeholders, in our fundraising and in delivering our campaign therefore remains a key priority. The pace at which the School can invest depends upon continuing to attract significant gifts.

The School does now have in place long term cash flow reporting to 2025. Monitoring both operating cash and cash from fundraising, we need to ensure we have sufficient resources to fund investment decisions. Based on this, borrowing arrangements were also recently determined and a loan agreement put in place to complement fundraising.

Significant plans are underway to grow our Degree Programme portfolio when the new facilities open. In this context effective management of operating costs remains key, and the School will retain its focus on ensuring that it has sufficient resources to achieve its goals.

Catherine Webster

Treasurer

19 November 2014

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 2014 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 Board of Governors 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 Board of Governors 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 8 to 9 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 2014 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;
- income has been applied in accordance with the School's Statutes; and
- 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 Corporate Governance Statement 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

27 November 2014

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-sub 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 Staff 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 assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", 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.

Accounting policies *continued*

(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. Other investments are held at cost. 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 at 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 funds 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 have been provided with detailed financial forecasts and estimates of income, expenditure and cash flows for the period to 31 July 2019, and a high-level forecast of income, expenditure and cash flows for the period to 31 July 2026. Detailed income forecasts and monthly cash flows have been prepared for the period to 31 July 2015. 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 2014

	Notes	2014 £'000	2013 £'000
INCOME			
Academic fees	1	103,281	93,700
Funding Council grants	2	7,599	7,501
Research grants and contracts		1,577	1,464
Other income	3	8,381	7,096
Endowment and investment income	4	1,094	1,060
Gain on revaluation of properties	9	1,074	-
Total income		123,006	110,821
EXPENDITURE			
Staff costs	6	59,865	55,268
Other operating expenses	7	55,215	52,020
Depreciation	9	4,386	4,139
Total expenditure		119,466	111,427
Surplus /(deficit) after depreciation of tangible fixed assets and before tax		3,540	(606)
Share of operating surplus of associate company	11	85	48
Taxation	8	-	-
Surplus /(deficit) after depreciation of tangible fixed assets and tax		3,625	(558)
Surplus for the year transferred from accumulated income in endowment funds	16	1,326	1,455
Surplus for the year retained within general reserves		4,951	897

The notes on pages 24–45 form part of these financial statements.

Consolidated statement of total recognised gains and losses

for the year ended 31 July 2014

	Notes	2014 £'000	2013 £'000
Surplus / (deficit) for the year after tax		3,625	(558)
New endowments	16	15,480	8,354
Pension fund actuarial (loss) / gain	26	(2,363)	2,964
Increase following the revaluation of properties	9	32,815	-
Increase following the revaluation of investments		1,052	3,534
Transfer to deferred capital grants	16,23	<u>(7,685)</u>	<u>(2,150)</u>
Total recognised gains for the year		<u>42,924</u>	<u>12,144</u>

Reconciliation of total reserves

for the year ended 31 July 2014

	Notes	2014 £'000	2013 £'000
Opening reserves and endowments	17	76,443	64,299
Total recognised gains for the year		<u>42,926</u>	<u>12,144</u>
Closing reserves and endowments	17	<u>119,369</u>	<u>76,443</u>

Consolidated statement of historical cost surplus and deficits

for the year ended 31 July 2014

	Notes	2014 £'000	2013 £'000
Surplus / (deficit) for the year before tax		3,625	(558)
Difference between a historical cost depreciation charge and the actual depreciation charge for the year, calculated on the revalued amount		<u>(185)</u>	<u>(968)</u>
Historical cost surplus / (deficit) for the year before tax		3,440	(1,526)
Taxation	8	<u>-</u>	<u>-</u>
Historical cost surplus / (deficit) for the year after tax		<u>3,440</u>	<u>(1,526)</u>

The notes on pages 24–45 form part of these financial statements.

Balance sheets

as at 31 July 2014

	Notes	Consolidated		London Business School	
		2014 £'000	2013 £'000	2014 £'000	2013 £'000
FIXED ASSETS					
Tangible assets	9	120,262	80,736	120,223	80,697
Other investments	10	15,046	11,649	91	91
Investment in associate company	11	444	357	-	-
		<u>135,752</u>	<u>92,742</u>	<u>120,314</u>	<u>80,788</u>
ENDOWMENT ASSETS	12	36,785	32,510	-	-
CURRENT ASSETS					
Stock		208	113	191	91
Debtors	13	15,592	10,482	10,369	6,967
Cash at bank and in hand		19,476	11,498	19,370	11,538
		<u>35,276</u>	<u>22,093</u>	<u>29,930</u>	<u>18,596</u>
Creditors: amounts falling due within one year	14	(52,265)	(43,176)	(50,867)	(43,676)
Net current liabilities		<u>(16,989)</u>	<u>(21,083)</u>	<u>(20,937)</u>	<u>(25,080)</u>
Total assets less current liabilities		<u>155,548</u>	<u>104,169</u>	<u>99,377</u>	<u>55,708</u>
Creditors: amounts falling due after more than one year	15	(395)	(441)	(316)	(441)
Net assets excluding pension liability		<u>155,153</u>	<u>103,728</u>	<u>99,061</u>	<u>55,267</u>
Net pension liability	26	(7,500)	(5,393)	(7,500)	(5,393)
Net assets including pension liability		<u>147,653</u>	<u>98,335</u>	<u>91,561</u>	<u>49,874</u>
ENDOWMENTS					
Expendable	16	5,692	7,554	-	-
Permanent	16	31,093	24,956	-	-
Reserves					
General		25,125	17,183	5,818	1,232
Pension	26	(7,500)	(5,393)	(7,500)	(5,393)
Revaluation		64,959	32,143	64,959	32,143
Total	17	<u>119,369</u>	<u>76,443</u>	<u>63,277</u>	<u>27,982</u>
Deferred capital grants	23	28,284	21,892	28,284	21,892
Total funds		<u>147,653</u>	<u>98,335</u>	<u>91,561</u>	<u>49,874</u>

Approved by the Governing Body and authorised for issue on 19 November 2014.

The Honourable Apurv Bagri
Chairman

Professor Sir Andrew Likierman
Dean

The notes on pages 24–45 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 July 2014

	Notes	2014 £'000	2013 £'000
Net cash inflow from operating activities	18	8,127	4,317
Returns on investments and servicing of finance	19	906	778
Capital expenditure and financial investment	20	(1,055)	(5,289)
Management of liquid resources	21	-	-
Increase / (decrease) in cash in the year		<u>7,978</u>	<u>(194)</u>
Reconciliation of net cash flow to investment in net funds			
Increase / (decrease) in cash in the year		7,978	(194)
Cash outflow from liquid resources		-	-
Movement in net funds in the year		7,978	(194)
Net funds at 1 August		<u>11,498</u>	<u>11,692</u>
Net funds at 31 July	22	<u>19,476</u>	<u>11,498</u>

The notes on pages 24–45 form part of these financial statements.

Notes to the financial statements

31 July 2014

1 Academic fees

	Notes	2014 £'000	2013 £'000
MBA		25,153	23,569
Masters in Management		4,300	4,034
Sloan Fellowship		2,897	2,574
Executive MBA		15,678	15,297
EMBA-Global / Global Asia		4,657	4,383
Masters in Finance		7,635	6,754
PhD Programme		1,241	1,122
Executive Education Open Programmes		17,595	17,000
Executive Education Custom Programmes		24,125	18,967
		<u>103,281</u>	<u>93,700</u>

2 Funding council grants

		2014 £'000	2013 £'000
Mainstream teaching funds		133	167
Mainstream research funds		3,575	3,593
Higher Education Innovation Fund		3,134	2,850
Released from deferred capital grants			
Buildings	23	331	411
Equipment	23	426	480
		<u>7,599</u>	<u>7,501</u>

3 Other income

		2014 £'000	2013 £'000
Donations received		17,872	10,200
Less: endowments retained in reserves	16	(15,480)	(8,354)
Donations income		2,392	1,846
Released from deferred capital grants	23	644	619
Catering and accommodation		2,590	2,666
Other general income		2,755	1,965
		<u>8,381</u>	<u>7,096</u>

4 Endowment and investment income

	Notes	2014 £'000	2013 £'000
Income from expendable endowments	16	3	11
Income from permanent endowments	16	496	528
Other investment income		518	430
Other interest received		77	91
		<u>1,094</u>	<u>1,060</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

	2014 £'000	2013 £'000
Wages and salaries	49,619	45,724
Social security costs	5,034	4,754
Other pension costs	5,565	5,084
SPS pension contribution less current service cost	(353)	(294)
	<u>59,865</u>	<u>51,278</u>
Emoluments of the Dean	2014 £'000	2013 £'000
Salary	365	348
Pension	53	56
Benefits	1	1
Total aggregate emoluments of the Dean	<u>419</u>	<u>405</u>

Notes to the financial statements *continued*

31 July 2014

6 Staff costs *continued*

Average staff numbers by major category

	2014	2013
	Numbers	Numbers
Academic including research	108	106
Other	613	583
	<u>721</u>	<u>689</u>

The number of staff reported above is the average over each year on a FTE basis.

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-subsidary, 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: 11, £110,000 - £119,999: 6, £120,000 - £129,999: 20, £130,000 - £139,999: 7, £140,000 - £149,999: 2, £150,000 - £159,999: 6, £160,000 - £169,999: 12, £170,000 - £179,999: 7, £180,000 - £189,999: 6, £190,000 - £199,999: 3, £200,000 - £209,999: 5, £210,000 - £219,999: 2, £220,000 - £229,999: 4, £230,000 - £239,999: 5, £240,000 - £249,999: 4, £250,000 - £259,999: 4, £270,000 - £279,999: 3, £280,000 - £289,999: 3, £290,000 - £299,999: 1, £300,000 - £309,999: 2, £320,000 - £329,999: 1, £330,000 - £339,999: 2, £340,000 - £349,999: 3, £350,000 - £359,999: 1, £370,000 - £379,999: 1, £400,000 - £409,999: 2, £430,300 - £439,999: 1, £480,000 - £489,999: 1, £490,000 - £499,999: 2, £570,000 - £579,999: 1, £580,000 - £589,999: 1

For comparison purposes, total earnings in 2012/13 were as follows:

£100,000 - £109,999: 8, £110,000 - £119,999: 17, £120,000 - £129,999: 10, £130,000 - £139,999: 8, £140,000 - £149,999: 4, £150,000 - £159,999: 8, £160,000 - £169,999: 12, £170,000 - £179,999: 7, £180,000 - £189,999: 4, £190,000 - £199,999: 8, £200,000 - £209,999: 5, £210,000 - £219,999: 4, £220,000 - £229,999: 2, £230,000 - £239,999: 6, £250,000 - £259,999: 2, £260,000 - £269,999: 1, £270,000 - £279,999: 2, £280,000 - £289,999: 2, £290,000 - £299,999: 3, £310,000 - £319,000: 1, £330,000 - £339,999: 2, £360,000 - £369,999: 1, £370,000 - £379,999: 2, £390,000 - £399,999: 3, £510,000 - £519,999: 1, £560,000 - £569,999: 1

	2014	2013
	£'000	£'000
Compensation for loss of office to senior staff earning in excess of £100,000 per annum	<u>-</u>	<u>30</u>

7 Other operating expenses

	2014 £'000	2013 £'000
External teaching	12,412	11,823
Teaching support	4,269	4,738
Bought in teaching	7,545	5,571
Marketing	5,272	5,870
Technology	2,639	2,030
Premises and utilities	6,483	5,748
Catering and accommodation	7,245	6,828
Other overheads	9,241	7,862
Write off of impaired assets	-	1,326
SPS pension scheme charges	109	224
	<u>55,215</u>	<u>52,020</u>

During the year the School incurred statutory audit fees of £82,815 (2013: £76,810) and audit related assurance fees of £62,025 (2013: £4,800).

8 Taxation

	2014 £'000	2013 £'000
UK corporation tax at 22.3% (2013: 23.67%)	-	-
	<u>-</u>	<u>-</u>

Notes to the financial statements *continued*

31 July 2014

9 Tangible assets

CONSOLIDATED	Land and Buildings		Assets in course of construction	Facility improvements	Furniture and equipment	Total
	Freehold	Long leasehold				
Cost or valuation	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2013	20,340	47,000	13,972	3,900	9,936	95,148
Additions	-	-	8,489	536	998	10,023
Transfer from AICC	-	-	(4,543)	390	4,153	-
Revaluation	12,925	13,000	-	-	-	25,925
At 31 July 2014	33,265	60,000	17,918	4,826	15,087	131,096
Depreciation						
At 1 August 2013	721	4,568	-	1,544	7,579	14,412
Charge for the year	391	2,284	-	512	1,199	4,386
Transfers	-	-	-	-	-	-
Revaluation	(1,112)	(6,852)	-	-	-	(7,964)
At 31 July 2014	-	-	-	2,056	8,778	10,834
Net book value						
Balance at 31 July 2014	33,265	60,000	17,918	2,770	6,309	120,262
Balance at 31 July 2013	19,619	42,432	13,972	2,356	2,357	80,736

On 31 July 2014 the freehold and long leasehold land and buildings were re-valued at £95.3 million on the basis of existing use value by Deloitte, Chartered Surveyors. This includes £2m for one property which is currently recorded under assets in the course of construction.

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 £468,000.

9 Tangible assets *continued*

SCHOOL	Land and Buildings		Assets in course of construction	Facility improvements	Furniture and equipment	Total
	Freehold	Long leasehold				
Cost or valuation	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2013	20,340	47,000	13,972	3,900	9,897	95,109
Additions	-	-	8,489	536	998	10,023
Transfer from AICC	-	-	(4,543)	390	4,153	-
Revaluation	12,925	13,000	-	-	-	25,925
At 31 July 2014	33,265	60,000	17,918	4,826	15,048	131,057
Depreciation						
At 1 August 2013	721	4,568	-	1,544	7,579	14,412
Charge for the year	391	2,284	-	512	1,199	4,386
Transfers	-	-	-	-	-	-
Revaluation	(1,112)	(6,852)	-	-	-	(7,964)
At 31 July 2014	-	-	-	2,056	8,778	10,834
Net book value						
Balance at 31 July 2014	33,265	60,000	17,918	2,770	6,270	120,223
Balance at 31 July 2013	19,619	42,432	13,972	2,356	2,318	80,697

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:

	2014	2013
	£'000	(Re-stated) £'000
Freehold	14,542	14,873
Long leasehold	9,406	9,622
Facility Improvements	10,142	12,041
	<u>34,090</u>	<u>36,537</u>

Notes to the financial statements *continued*

31 July 2014

10 Other investments

CONSOLIDATED

	Other investments total £'000
At 1 August 2013	11,649
Increase in market value Investment	497
	<u>2,900</u>
At 31 July 2014	<u>15,046</u>

SCHOOL

	Subsidiary companies total £'000
At 1 August 2013	91
Change in investment	-
	<u>-</u>
At 31 July 2014	<u>91</u>

Refer to note 12 for further details on 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 (2013: 91,304) ordinary shares of £1 each, being the total issued share capital of the company.

The quasi-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.

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. Other investments are held at cost.

	Notes	2014 £'000	2013 £'000
Market value as at 31 July			
Endowments		36,785	32,510
Other Investments	10	<u>15,046</u>	<u>11,649</u>
		51,831	44,159
Book cost		<u>41,608</u>	<u>34,858</u>

Investments are held in the following funds:

	2014 £'000	2013 £'000
UK equities	12,360	11,224
Corporate bonds	12,999	10,862
Fixed interest bonds	12,209	10,767
Overseas equities	12,513	11,176
Liquidity funds	-	130
	<u>50,081</u>	<u>44,159</u>
Other investments	<u>1,750</u>	-
	51,831	44,159

Investments held that represented a holding greater than 5% of the total investment held:

	2014 £'000	2013 £'000
Charitrak UK Equity Index Fund Inc	12,360	11,223
BlackRock UK Corporate Bond Index Fund	12,999	10,862
BlackRock GiltTrack Fund Dist	12,209	10,767
BlackRock Europe Ex-UK Index Fund EUR Fund Flexible Distributing Class	4,663	4,099
BlackRock North American Index Fund USD Flexible Distributing Class	4,270	3,823
BlackRock Japan Index Sub Fund USD Distribution	-	2,057

Movement in endowment assets

	2014 £'000	2013 £'000
At 1 August	32,510	25,932
New endowments invested	15,480	8,354
Increase in market value of investments	556	1,829
Transfer to deferred capital grants	(7,685)	(2,150)
Transfer to unrestricted reserves	(2,750)	-
Decrease in cash balance held for endowment funds	<u>(1,326)</u>	<u>(1,455)</u>
At 31 July	<u>36,785</u>	<u>32,510</u>

Notes to the financial statements *continued*

31 July 2014

13 Debtors

	Consolidated		School	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade debtors	10,937	7,048	4,497	1,676
Prepayments and accrued income	3,400	2,513	2,360	1,191
Amounts owed by subsidiary undertakings	-	-	2,713	3,182
Other debtors	1,255	921	799	918
	<u>15,592</u>	<u>10,482</u>	<u>10,369</u>	<u>6,967</u>

14 Creditors: amounts falling due within one year

	Consolidated		School	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Amounts owed to subsidiary undertakings	-	-	2,097	2,847
Course payments received in advance	23,740	18,467	23,740	18,467
Trade creditors	3,082	1,905	2,453	1,688
Social security and other taxation	2,026	1,781	2,006	1,769
Accruals and deferred income	22,370	20,491	19,885	18,694
Other creditors	1,047	532	686	211
	<u>52,265</u>	<u>43,176</u>	<u>50,867</u>	<u>43,676</u>

15 Creditors: amounts falling due after more than one year

	Consolidated		School	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Accruals and deferred income	<u>395</u>	<u>441</u>	<u>316</u>	<u>441</u>

On 31 July 2014 London Business School entered into a revolving credit facility agreement with HSBC. The loan agreement is for the ten year period to 31 July 2024. As at the year end the facility had not been utilised.

16 Endowments

	Unrestricted permanent	Restricted permanent	Restricted expendable	2014 Total	2013 Total
	£'000	£'000	£'000	£'000	£'000
At 1 August 2013					
Capital	6,272	18,684	7,076	32,032	25,503
Accumulated Income	-	-	478	478	429
	<u>6,272</u>	<u>18,684</u>	<u>7,554</u>	<u>32,510</u>	<u>25,932</u>
New Endowments	5,001	581	9,898	15,480	8,354
Investment Income	120	376	3	499	539
Expenditure	-	(63)	(1,685)	(1,748)	(1,959)
Increase in market value of investments	133	421	1	555	1,829
Transfers to deferred capital grants	-	-	(7,685)	(7,685)	(2,150)
Transfer to unrestricted reserves	-	-	(2,750)	(2,750)	-
Other transfers	(120)	(312)	356	(76)	(35)
At 31 July 2014	<u>11,406</u>	<u>19,687</u>	<u>5,692</u>	<u>36,785</u>	<u>32,510</u>
Represented by:					
Capital	11,406	19,687	5,280	36,373	32,032
Accumulated Income	-	-	412	412	478
	<u>11,406</u>	<u>19,687</u>	<u>5,692</u>	<u>36,785</u>	<u>32,510</u>
Analysis by type of purpose:					
Chair funds	-	10,618	93	10,711	10,381
Scholarship funds	-	5,791	2,555	8,346	7,783
Infrastructure funds	-	-	232	232	171
Other funds	11,406	3,278	2,812	17,496	14,175
	<u>11,406</u>	<u>19,687</u>	<u>5,692</u>	<u>36,785</u>	<u>32,510</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.

Notes to the financial statements *continued*

31 July 2014

16 Endowments *continued*

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

	2014	2013
	£'000	£'000
Expenditure	(1,825)	(1,994)
Investment income	<u>499</u>	<u>539</u>
Surplus for the year	<u>(1,326)</u>	<u>(1,455)</u>

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	The Tony and Maureen Wheeler Chair in Entrepreneurship	The Donald Gordon Chair in Entrepreneurship	The Birla Centre
	£'000	£'000	£'000	£'000
At 1 August 2013	2,398	2,736	3,208	3,420
New endowments	-	-	-	-
Investment income	43	49	58	63
Expenditure	(43)	(109)	(54)	-
Other transfers	-	-	-	-
Increase in market value of investment	<u>51</u>	<u>56</u>	<u>67</u>	<u>72</u>
At 31 July 2014	<u>2,449</u>	<u>2,732</u>	<u>3,279</u>	<u>3,555</u>

	LBS Endowment General	The Vodafone Group Foundation Scholarships - The Sir Christopher Gent Awards	Dubai Chair in Innovation Scholarship
	£'000	£'000	£'000
At 1 August 2013	6,173	2,240	1,292
New endowments	5,001	-	-
Investment income	118	40	23
Expenditure	(160)	(80)	-
Other transfers	-	-	-
Increase in market value of investment	<u>130</u>	<u>47</u>	<u>27</u>
At 31 July 2014	<u>11,262</u>	<u>2,247</u>	<u>1,342</u>

17 Reserves and endowments

CONSOLIDATED	Expendable endowments	Permanent endowments	General reserves	Pension reserve	Revaluation reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2013	7,554	24,956	17,183	(5,393)	32,143	76,443
Net movement	(1,862)	6,137	7,942	(2,107)	32,816	42,926
At 31 July 2014	5,692	31,093	25,125	(7,500)	64,959	119,369

SCHOOL	Expendable endowments	Permanent endowments	General reserves	Pension reserve	Revaluation reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2013	-	-	1,232	(5,393)	32,143	27,982
Net movement	-	-	4,586	(2,107)	32,816	35,295
At 31 July 2014	-	-	5,818	(7,500)	64,959	63,277

18 Reconciliation of operating surplus / (deficit) to net cash flow from operating activities

	Notes	2014 £'000	2013 £'000
Surplus / (deficit) after depreciation of tangible fixed assets and before tax		3,540	(606)
Depreciation	9	4,386	4,139
Gain on revaluation of properties		(1,074)	-
Impairment of tangible fixed assets	9	-	1,326
Deferred capital grants released	23	(1,401)	(1,510)
Pension contribution less current service cost	26	(366)	(294)
(Increase) in stock		(95)	(4)
(Increase) in debtors		(5,031)	(1,238)
Increase in creditors		9,153	3,340
Endowment and investment income	4	(1,094)	(1,060)
Interest payable	7	109	224
Net cash inflow from operating activities		8,127	4,317

Notes to the financial statements *continued*

31 July 2014

19 Returns on investments and servicing of finance

	2014 £'000	2013 £'000
Income from endowments	499	539
Interest received	516	463
Interest paid	<u>(109)</u>	<u>(224)</u>
Net cash inflow from returns on investments and servicing of finance	<u>906</u>	<u>778</u>

20 Capital expenditure and financial investment

	Notes	2014 £'000	2013 £'000
Purchase of tangible fixed assets	9	(10,023)	(9,118)
New endowments received	16	15,480	8,354
Cash movement on investments		130	271
Deferred capital grants received	23	108	204
Purchase of investments		<u>(6,750)</u>	<u>(5,000)</u>
Net cash outflow from capital expenditure and financial investment		<u>(1,055)</u>	<u>(5,289)</u>

21 Management of liquid resources

	2014 £'000	2013 £'000
Withdrawal of deposits	<u>-</u>	<u>-</u>

22 Analysis of change in net funds

	At 1 August 2013 £'000	Cash flow £'000	At 31 July 2014 £'000
Cash at bank and in hand	<u>11,498</u>	<u>7,978</u>	<u>19,476</u>
Net funds	<u>11,498</u>	<u>7,978</u>	<u>19,476</u>

23 Deferred capital grants

	Consolidated and School		
	HEFCE £'000	Other £'000	Total £'000
At 1 August 2013			
Buildings	1,451	17,697	19,148
Equipment	<u>2,513</u>	<u>231</u>	<u>2,744</u>
Total	<u>3,964</u>	<u>17,928</u>	<u>21,892</u>
Cash received			
Building	-	7,685	7,685
Equipment	<u>108</u>	<u>-</u>	<u>108</u>
Total	<u>108</u>	<u>7,685</u>	<u>7,793</u>
Released to income and expenditure			
Buildings	(331)	(596)	(927)
Equipment	<u>(426)</u>	<u>(48)</u>	<u>(474)</u>
Total	<u>(757)</u>	<u>(644)</u>	<u>(1,401)</u>
At 31 July 2014			
Buildings	1,120	24,786	25,906
Equipment	<u>2,195</u>	<u>183</u>	<u>2,378</u>
Total	<u>3,315</u>	<u>24,969</u>	<u>28,284</u>

24 Capital commitments

Capital expenditure amounting to £4.2 million was contracted for at 31 July 2014 (2013: £2.4 million).

25 Lease commitments

	Land and buildings 2014 £'000	Land and buildings 2013 £'000	Plant and machinery 2014 £'000	Plant and machinery 2013 £'000
Annual rentals under operating lease commitments are as follows:				
Expiring within 1 year	-	-	23	-
Expiring within 2-5 years	304	520	37	53
Expiring in more than 5 years	<u>218</u>	<u>218</u>	<u>-</u>	<u>-</u>
	<u>522</u>	<u>738</u>	<u>60</u>	<u>53</u>

Notes to the financial statements *continued*

31 July 2014

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, 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

	USS	SPS
	31 March 2011	1 August 2012
Latest actuarial valuations		
Assumptions		
Investment return (per annum)	6.1%	5.4%
Salary scale increases (per annum)	4.4%	4.2%
Pension increases in payment (per annum)	2.6%	3.6%
RPI price inflation (per annum)	3.4%	3.1%
CPI price inflation (per annum)	2.6%	2.1%
Actuarial valuation data		
	£million	£'000
Market value of assets	32,434	10,032
Market value of past service liabilities	(35,344)	(18,459)
Deficit of assets	(2,910)	(8,427)
Proportion of members' accrued benefits covered by assets	92%	54%
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 2014	16.0%	N/A
Pension cost		
The total pension cost for the School for the year ended was:		
	2014	2013
	£'000	£'000
Contributions to USS defined benefit scheme	4,991	4,557
Contributions to SPS defined benefit scheme	425	340
Contributions to defined contribution scheme	149	187
	5,565	5,084

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 three and a maximum of five are independent 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 2014 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 (i.e. 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 £32,433.5 million and the value of the scheme's technical provisions was £35,343.7 million indicating a shortfall of £2,910.2 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.

Notes to the financial statements *continued*

31 July 2014

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 2021. In 2011 the actuary estimated that if experience remained in line with the assumptions made, the shortfall at 31 March 2014 would be £2.2 billion, equivalent to a funding level of 95%.

However, changes in market conditions between March 2011 and March 2014 have had an impact on scheme funding. The next formal triennial actuarial valuation will take place as at 31 March 2014, and work is currently underway to update the actuarial assumptions and allow for any adjustments to the overall funding approach adopted by the trustee board in consultation with stakeholders.

As work on the 2014 valuation is not yet complete the trustee cannot provide the final figure however, an estimate has been provided using the assumptions used to deliver the 2011 actuarial valuation. On that basis, the actuary has estimated that the funding level under the scheme specific funding regime will have fallen from 92% as 31 March 2011 to 85% at 31 March 2014. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions.

The funding level has decreased mainly due to a decrease in real gilt yields, reducing the implied net discount rate and therefore placing a higher value on the schemes liabilities. This increase has been partially offset by a higher than expected investment return.

On the FRS17 basis, using an AA bond discount rate of 4.5% per annum based on spot yields, the actuary estimates that the funding level at 31 March 2014 was 75%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 61%.

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

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing 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 liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

26 Pension schemes *continued*

As at the 2011 valuation 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 valuation effective date of 31 March 2011 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 uplifted to 7.5% p.a. and 6.5% p.a. for FS Section members and CRB Section members respectively.

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%.

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.

The trustee's role is to set risk and return parameters which reflect the strength of the sponsoring employers and the nature of the scheme's liabilities. These parameters, taken together with the anticipated returns form the basis of the trustee's funding strategy. These parameters are informed by advice from its internal investment team, its investment consultant and the scheme actuary, as well as an independent assessment of the support available from the sponsoring employers. The trustee remains confident that it can continue to take a long-term view of scheme funding, backed as it is by a robust Higher Education (HE) sector.

The fund is invested in a wide range of asset classes, both publicly traded (including equities and fixed income) and private (including private equity, infrastructure, property and timberland). A diversified portfolio helps to spread investment risk across different asset classes and to boost the level of confidence in maintaining sufficient investment returns from the fund as a whole. This investment approach is innovative and responsible, and targeted at achieving returns required to meet the scheme's liabilities. Recently, the trustee has invested directly in infrastructure assets. These investments are typically illiquid, but can achieve attractive inflation-linked returns in ways often not available in the publicly traded markets and which can match the scheme's liabilities to a high degree.

At 31 March 2014, USS had over 162,000 active members and the Institution had 471 active members participating in the scheme.

The total pension cost for the School was £4,991,000 (2013: £4,557,000). This includes £Nil (2013: £Nil) prepaid/outstanding contributions at the balance sheet date. The contribution rate payable by the School was 16% of pensionable salaries.

Notes to the financial statements *continued*

31 July 2014

26 Pension schemes *continued*

(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 2014	31st July 2013
Discount rate for liabilities	4.8%	4.8%
Price inflation (RPI)	3.5%	3.6%
Price inflation (CPI)	2.5%	2.6%
Future increases to pensions in deferment	2.5%	2.6%
Future increases to pensions in payment	3.4%	3.5%
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	5.7%	6.0%

Value of liabilities and resulting deficit:

	31st July 2014 £'000	31st July 2013 £'000
Total market value of assets	12,737	11,522
Present value of liabilities	<u>(20,237)</u>	<u>(16,915)</u>
Net pension liability	<u>(7,500)</u>	<u>(5,393)</u>

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

	31st July 2014 £'000	31st July 2013 £'000
Opening value of assets	11,522	10,032
Expected return	700	549
Asset gain	226	772
Contributions (employer)	425	340
Benefits paid	(77)	(125)
Expenses paid from the Scheme	<u>(59)</u>	<u>(46)</u>
Closing value of assets	<u>12,737</u>	<u>11,522</u>

26 Pension schemes *continued*

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

	31st July 2014 £'000	31st July 2013 £'000
Equities	5,604	5,300
Bonds	4,331	3,802
Property	2,802	2,420
Total	<u>12,737</u>	<u>11,522</u>

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

	31st July 2014 £'000	31st July 2013 £'000
Opening value of liabilities	16,915	18,459
Interest cost	810	773
Experience gain	(196)	(97)
Change of assumptions loss / (gain)	2,785	(2,095)
Benefits paid	(77)	(125)
Closing value of liabilities	<u>20,237</u>	<u>16,915</u>

The amounts recognised in the income and expenditure account are:

	31st July 2014 £'000	31st July 2013 £'000
Interest on liabilities	810	773
Expected return on assets	(700)	(549)
Expenses paid from the Scheme	59	46
Total expense	<u>169</u>	<u>270</u>

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

	31st July 2014 £'000	31st July 2013 £'000
Actual return less expected return on pension scheme assets	226	772
Experience gains arising on the scheme liabilities	196	97
Changes in assumptions underlying the present value of the scheme liabilities	(2,785)	2,095
Total recognised (loss) / gain	<u>(2,363)</u>	<u>2,964</u>

Notes to the financial statements *continued*

31 July 2014

26 Pension schemes *continued*

History of experience of gains and losses

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Total market value of assets	12,737	11,522	10,032	9,461	8,339
Present value of liabilities	<u>(20,237)</u>	<u>(16,915)</u>	<u>(18,459)</u>	<u>(13,868)</u>	<u>(12,752)</u>
Deficit	<u>(7,500)</u>	<u>(5,393)</u>	<u>(8,427)</u>	<u>(4,407)</u>	<u>(4,413)</u>
Experience gain / (loss) on liabilities	196	97	(595)	162	383
Experience gain / (loss) on assets	226	772	(173)	335	732

27 Related party transactions

All transactions involving organisations in which members of the Governing Body or Senior Management have an interest, including those identified below, are conducted at arm's length and in accordance with the Schools financial regulations. An updated register of interests of the Governing Body is maintained.

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.

	2014 £	2013 £
Professor Nirmalya Kumar	-	38,000
Professor Randall Peterson	59,500	35,000
Professor Madan Pillutla	63,000	97,000
Professor Richard Portes	-	5,000
Professor Stephen Schaefer	-	5,000
Professor Andrew Scott	91,000	69,500
Professor Julian Franks	19,000	21,500
Professor Lynda Gratton	30,000	4,750

The only outstanding balances at the end of the year relating to the above individuals were amounts of £9,500 (2012/13: £11,500) payable to Professor Scott and £14,000 (2012/13: £nil) payable to Professor Pillutla.

Professor Malcolm Grant is a member of the HEFCE Board. The School receives £6,842,000 (2012/13: £6,610,000) of funding from HEFCE (see note 2). These transactions are conducted at arm's length and in the normal course of business.

In addition to the above, Professor Peterson is a partner of TalentSage LLC. In 2013/14, the School paid £58,000 (2012/13: £93,000) 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 (2012/13: £nil).

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 £239,000 (2012/13: £239,000) and charged LBSSA for catering services amounting to £102,000 (2012/13: £144,000). At the year end, the School had an outstanding balance due from LBSSA of £20,000 (2012/13: £10,000).

27 Related party transactions *continued*

Sir John Ritblat, Chairman, Delancey Real Estate Asset Management Advisory Board of Delancey Real Estate Asset Management (“DREAM”). In 2013/14, the School paid £132,000 (2012/13: £336,000) 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 (2012/13: £nil).

Nigel Andrews is a member of the board of American Friends of London Business School (AFLBS). The entity’s main objective is to serve the purpose of furthering the welfare of London Business School and to expend funds to support the educational programmes of the School. The board authorise transfers of donations to the School on a regular basis throughout the year. During the year, AFLBS transferred £942,000 to the School (2012/13: £440,000).

The Honourable Apurv Bagri is a Commissioner of the Crown Estates Paving Commission. In 2013/14, the School paid £44,000 (2012/13: £19,000) 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 2013/14, the School paid £nil (2012/13: £1,100) 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 2013 £’000	Donations and grants 2014 £’000	Investment Income 2014 £’000	Gain on investments 2014 £’000	Expenditure 2014 £’000	Balance at 31 July 2014 £’000
48,324	16,288	2,411	1,052	(12,348)	55,727

Governing Body

The Honourable Apurv Bagri

(Chairman)(appointed 2 May 2014)

Managing Director, Metdist Group

Sir John Ritblat

(Chairman) (retired 1 May 2014)

Hon President, The British Land Company PLC

HE Amr Al Dabbagh

Chairman and CEO, Al Dabbagh Group

Mr Nigel D T Andrews

Non-Executive Chairman Old Mutual Asset

Management

Mr Eric Babaev

(retired 31 July 2014)

Student Association Representative

MBA 2014

Mr John Connolly

Chairman, AMEC plc and Chairman, G4S plc

Mr Saeb Eigner

Chairman, Lonworld Group

Dame Amelia Fawcett

Chairman, Guardian Media Group

Professor Julian Franks

Professor of Finance

London Business School

Mr Richard Frost

Secretary to Governing Body

Secretary, London Business School

Professor Lynda Gratton

Professor of Management Practice in

Organisational Behaviour

London Business School

Ms Kristine Grigsby

(appointed 1 July 2014)

Student Association Representative

MBA 2015

Mr Ian Hannam

Founder and Chairman, Hannam & Partners

Mr Chris Havemann

(appointed 1 January 2014)

CEO, Rated People Ltd

Mr Ho Kwong Ping

Executive Chairman, Banyan Tree Hotels &

Resorts

Mr António Horta-Osório

CEO, Lloyds Banking Group plc

Dr Mo Ibrahim

Chairman and Founder

Mo Ibrahim Foundation

Mrs Ingrid Kwok

Mr Peter Johnson

Senior Admissions Manager – Masters in Finance

London Business School

Professor Sir Andrew Likierman

Dean

London Business School

Dame Mary Marsh

Director, Clore Social Leadership Programme

Mr Nigel Morris

Managing Partner, Ffestiniog Company LLC

Baroness Lucy Neville-Rolfe DBE CMG

Professor Randall Peterson

Professor of Organisational Behaviour

London Business School

Professor Hélène Rey

Professor of Economics

London Business School

Professor Stephen Schaefer

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

AUDIT & RISK COMMITTEE

Reports to Governing Body

Chair:

Mr Saeb Eigner

Members:

Dame Mary Marsh

Mr Eric Stobart

Mr Chris Havemann

Secretary:

Ms Helen Uglow, Deputy Secretary

In attendance:

Executives:

Professor Sir Andrew Likierman, Dean

Mr Richard Frost, School Secretary

Ms Melanie Armstrong, Finance Director

CAMPAIGN COMMITTEE

Reports to Governing Body

Chair:

The Hon Apurv Bagri

Vice Chairs:

Mr Nigel Andrews

Mr Roger Carlsson

Mr Ian Hannam

Dr Mo Ibrahim

Mr Huw Jenkins

Professor Randall Peterson

Professor Andrew Scott

Members:

Mr Jeremy Asher

Mr Garvin Brown

Mr Stephen Forsyth

Mr David Kotler

Mr Paul Taylor

Mr Martin Wise

Mr Flavio Figueiredo

Ms Peggy Czyzak-Dannenbaum

Mr David Thorp

Mr Navin Valrani

Ms Aditya Talwar

Mr John Vermilye

In attendance:

Executives:

Professor Sir Andrew Likierman, Dean

Ms Susie Balch

Ms Nina Bohn

ESTATES COMMITTEE

Reports to Governing Body

Chair:

The Hon Apurv Bagri

Members:

Sir John Ritblat

Mr John Connolly

Mr Saeb Eigner

In attendance:

Executives:

Professor Sir Andrew Likierman, Dean

Secretary:

Mr Richard Frost, School Secretary

FINANCE COMMITTEE

Reports to Governing Body

Chair:

Mr John Connolly

Other Non-Executives:

Mr Nigel D T Andrews

Dame Amelia Fawcett

Dame Lucy Neville-Rolfe

Mr Huw Jenkins

Secretary:

Ms Melanie Armstrong, 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 Stephen Schaefer

Professor Andrew Scott

Professor Sir Andrew Likierman, Dean

Secretary:

Ms Melanie Armstrong, Finance Director

GOVERNANCE & NOMINATIONS COMMITTEE

Reports to Governing Body

Chair:

The Hon Apurv Bagri

Members:

Professor Sir Andrew Likierman, Dean

Dame Mary Marsh

Professor Lynda Gratton

Mr Chris Havemann

Mr K P Ho

Secretary:

Mr Richard Frost, School Secretary

REMUNERATION COMMITTEE

Reports to Governing Body

Chair:

The Hon Apurv Bagri

Members:

Professor Sir Andrew Likierman, Dean

Mr John Connolly

Mr Ian Hannam

Ms Ingrid Kwok

Secretary:

Mr Philip Willatt, Director Human Resources

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Dean, Operations

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