London Business School

Financial Statements 2012 - 2013

London experience. World impact

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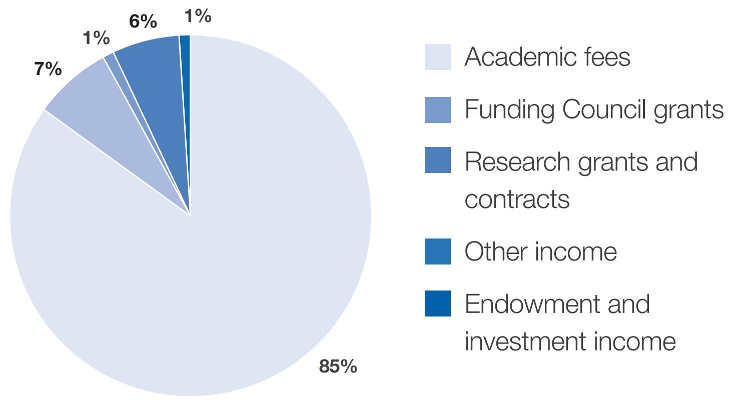
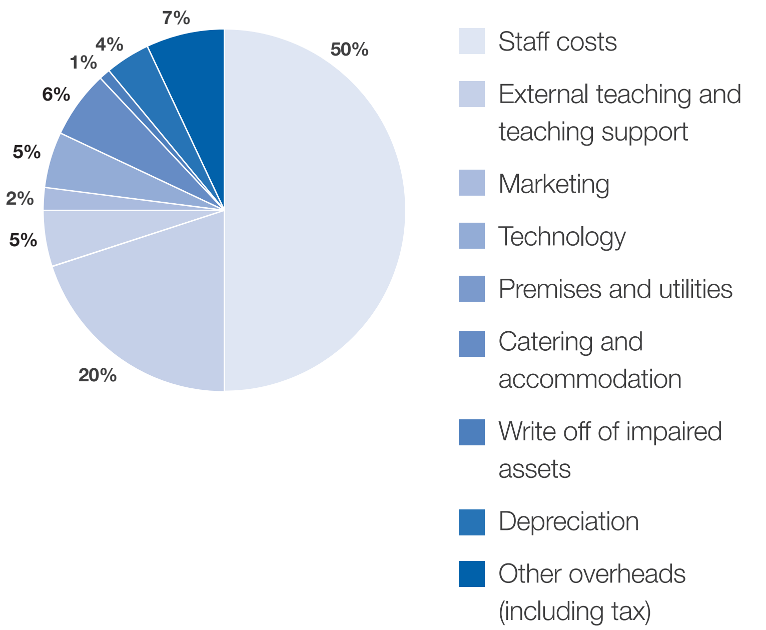
Summary of financial highlights

	2013 £'000	2012 £'000
INCOME		
Academic fees	93,700	89,391
Funding Council grants	7,501	7,434
Research grants and contracts	1,464	1,463
Other income	7,096	7,381
Endowment and investment income	1,060	901
Total income	110,821	106,570
EXPENDITURE		
Staff costs	55,268	51,278
Other costs		
External teaching and teaching support	22,132	20,454
Marketing	5,870	5,374
Technology	2,030	2,757
Premises and utilities	5,748	6,195
Catering and accommodation	6,828	6,830
Write off of impaired assets	1,326	-
Depreciation	4,139	3,923
SPS pension scheme charges	224	126
Other overheads (including tax)	7,862	7,564
Total expenditure	111,427	104,501
Share of operating surplus of associate company	48	58
Surplus for the year transferred from accumulated income in endowment funds	1,455	1,217
Surplus for the year	897	3,344
BALANCE SHEET		
Tangible assets	80,736	77,083
Investments	12,006	9,885
Endowment assets	32,510	25,932
Current assets	22,093	21,376
Current liabilities	(43,176)	(40,007)
Long-term liabilities and provisions	(5,834)	(8,922)
Net assets	98,335	85,347
Represented by		
Expendable and permanent endowments	32,510	25,932
General reserves	17,183	14,651
Pension reserve	(5,393)	(8,427)
Revaluation reserve	32,143	32,143
Deferred capital grants	21,892	21,048
	98,335	85,347
OTHER KEY STATISTICS		
Net movement in cash funds for the year	(194)	5,576
Capital expenditure during the year	9,118	5,132

INCOME 2013



EXPENDITURE 2013



Dean's statement

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

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

- Our #1 ranking in the Financial Times for our Masters in Finance programme for the third year running;
- Four of our faculty being listed in the world's 50 top-ranked management thinkers;
- Reaching the objective of 100 tenure and tenure-track faculty which we've had for many years;
- Significant progress on our executive education transformation process, including securing six major new contracts;
- The first Global Business Experiences for MBAs, with groups travelling to Boston/New York, Johannesburg, Mumbai, Hong Kong and Istanbul;
- Our May 2013 Reunion celebration, which saw record numbers of alumni returning to campus, followed closely by the Global Leadership Summit focused on the future of leadership;
- Our acquisition of the historic Old Marylebone Town Hall;
- A record year for fundraising with almost £20 million new commitments.

We have launched our first comprehensive fundraising campaign to build on our first 50 years and to strengthen our position. The campaign will allow us to secure the space that is essential for the growth of programmes. We are also seeking to enhance our scholarship provision to enable the brightest and best students to study here. We're supporting our faculty to enable them to continue to deliver their intellectual leadership. And we're investing in the technology infrastructure to help us achieve these all these objectives in innovative ways.

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

Andrew Likierman

Professor Sir Andrew Likierman
Dean
London Business School

Chairman's statement

The School has been extraordinarily successful since it was founded in the 1960's. At that time it was supported by the government, but that support has now been reduced to 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 grow, the School now needs space. This will be amply provided by the Old Marylebone Town Hall which we acquired earlier this year. Renovation of this historic building into a world-class teaching space is one of our key priorities.

But we also want faculty of the highest order at the School. In order to attract them, we must be able to offer competitive packages, faculty Chairs and money for research.

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

In all this, the School needs to be able to prosper without diminishing standards, and build its endowment.

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

Sir John Ritblat
Chairman of Governing Body
London Business School

Corporate governance statement

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

The School's Governing Body has had regard to the voluntary Governance Code of Practice contained in the Guide for Members of Higher Education Governing Bodies in the UK issued by the Committee of University 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.

During 2012-13 the Governing Body implemented a series of recommendations arising from a review of its own effectiveness carried out in 2011-12. These recommendations were designed to enhance further the Governing Body's ability to carry out its leadership role at the School effectively and to ensure that the appropriate governance structure is in place to underpin the School's growth strategy in support of its vision.

The Governing Body met four times during the 2012-13 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 of the Governing Body, one of whom is Chair.

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

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

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

The 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 2013 and up to the date of approval of the financial statements, that it is regularly reviewed by the Governing Body and that it accords with the internal control guidance for directors on the Combined Code as deemed appropriate for higher education.

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

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

The Audit and Risk Committee's role in the area of risk management consists of a high level review of the arrangements for internal control and the consideration of reports from senior management on risk and control. The Governing Body's agenda also includes a regular item for consideration of risk and control and receives reports thereon from senior management and the Audit and Risk Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its July 2013 meeting an assessment for the year ended 31 July 2013 was carried out upon receipt of documentation from senior management and the Audit and Risk Committee. At its November 2013 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 2013 to take place. This assessment took into account events since 31 July 2013.

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 2012-13 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
20 November 2013

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 2017-18 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 achievement 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; the Masters in Management (MiM); the Masters in Finance (MiF); and the Executive MBA London intake targets; and a reduction in the Sloan intake target. Recruitment to programmes continued to meet or exceed targets.

The MBA rose from fifth to first in the BusinessWeek international ranking, and remained at fourth in the Global MBA ranking. In the Financial Times the EMBA-Global programme rose from third to second; the EMBA fell from tenth to fifteenth; and the MiF remained first in the third year of the Masters in Finance post-experience ranking.

In a tough employment market Career Services was successful in meeting or exceeding graduate employment targets for most full-time degree programmes. Overall student experience ratings achieved the target of 4.30 out of 5.00, an increase from 4.29 year on year.

Achieving the vision – Executive Education

The School's open portfolio again remained broadly unchanged from 2011/12 but included the successful launch of two new programmes, Leading Change and Making Innovation Happen.

Custom programmes continued to flourish with growth in revenues from £16.7 million to £18.9 million. Over half of this revenue is from a small number of major clients for whom we are delivering large multi year programmes.

Overall programme ratings from participants on both open and custom programmes for the year remained on target at an average of 4.6 out of 5.0. Teaching ratings remained at 4.5 out of 5.0.

Roll out of the FLARE pedagogical model was completed on all programmes. A new approach to measuring the impact of FLARE was introduced and assessments will be completed by summer 2014. Six written and three filmed case studies were completed for key clients, demonstrating the value proposition of open and custom programmes.

Rankings in the Financial Times rose from 15th to 11th. In BusinessWeek, open enrolment programmes remained ranked 14th and custom programmes 11th.

Achieving the vision - Research

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

The Research and Faculty Office continued to secure external funds to support the School's research activities, achieving continuing success in obtaining grants from the European Research Council.

Publication of articles by core faculty in peer-reviewed journals rose from 89 in 2011-12 to 94 in 2012-13. Publication in top-tier 'A' list journals rose from 35 to 49.

The PhD programme admitted 16 students in 2012/13 bringing the overall cohort to 71 against a target of 75. Of the eight students graduating in 2012/13 seven obtained academic placements; one at a school ranked in the FT Top 50.

Developing Resources

Faculty

Eleven new members of faculty were recruited to join the School for the 2013-14 year, compared with nine in 2012-13. Six members of faculty left the School at the end of the year, of whom three are taking up posts at other schools and three have left the School's tenure track. The total core faculty headcount reached 100 for the first time in 2012/13 and is expected to increase to 105 in 2013-14.

The number of women faculty continued to increase and as a proportion of core faculty is expected to remain at 23% in 2013-14.

Staff

Voluntary staff turnover remained at 16%, and internal applicants filled 32% of vacancies during the year (35% in

Treasurer's report *continued*

2011/12). A full salary benchmarking exercise for all staff roles was undertaken as part of an HR strategy review due to be completed in autumn 2013.

The 2013 School survey achieved high scores on engagement, vision and values, communications and management. The main areas for improvement were collaboration and learning and development.

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 masterplan to increase the capacity and quality of its estate for planned growth.

The School entered into an agreement for lease with Westminster City Council for the Sammy Ofer Centre (formerly the Old Marylebone Town Hall) in November 2012 and planning permission for re-development has already been received. The Centre will provide an additional six Lecture Theatres and other state of the art facilities including a library; an alumni centre; a boardroom and numerous seminar rooms and study spaces.

During the year the School spent £3.5 million (£1.5 million in 2011/12) acquiring the leasehold of the Sammy Ofer Centre (much of which is fees in advance for the delivery of the design and planning) and a further £1 million (£2.5 million in 2011/12) to deliver maintenance and minor refurbishments on the existing campus.

The School's carbon management plan is undergoing review to reflect changes in the timetable for the development of the existing campus. Energy efficiency initiatives to install voltage optimisation equipment and to improve lighting and lighting controls were implemented.

Technology

The School developed and approved an IT strategy during 2012/13. During the year a number of strategic initiatives were launched including the relocation of the datacentre; investment in telephony; a website upgrade; investment in a school wide CRM; and investment in technology to support teaching and learning.

Key projects completed in 2013-14 were the fundraising and alumni management project and the upgraded payments system.

Spend totalled £4.5 million (£1 million in 2011/12).

Stakeholders

Implementation was completed of recommendations arising from the 2011-12 review of the effectiveness of the School's Governing Body, and from the April 2012 five-yearly HEFCE assurance review.

Work continued to engage with the Global Advisory Council and with the Office of Distinguished Friends to recognise their commitment to the School and to better co-ordinate their contributions to – and support for - its activities.

Advancement

The School has embarked on a major campaign to raise £100 million. The quiet phase of the campaign was launched in September 2010; the public phase in September 2013.

As at 31 July 2013 the campaign has raised £33.23 million in new commitments with £10 million committed from Mr Natie Kirsh in 2012/13 in support of the School's unrestricted endowment. Additionally, in September 2013, the School received a gift commitment of £25 million to the Sammy Ofer Centre from The Idan and Batia Ofer Family Foundation.

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 2013 is as follows:

	2013 £’000	2012 £’000
Income	110,821	106,570
Expenditure	(111,427)	(104,501)
Share of operating surplus of associate company	48	58
(Deficit) / Surplus for the year after tax	(558)	2,127
Endowment funds	1,455	1,217
Surplus for the year retained within general reserves	897	3,344
(Deficit) / Surplus for the year after tax	(558)	2,127
Pension fund actuarial gain / (loss)	2,964	(4,189)
Endowments	8,354	2,469
Increase following the revaluation of investments	3,534	1,265
Transfer to deferred capital gains	(2,150)	-
Total recognised gains for the year	12,144	1,672

Operating results

We are pleased to report that the School has had an excellent year having achieved an operating surplus of £0.9 million.

Income in the year grew by £4.3 million (4%). Fees from Degree Programmes grew from £54 million to £58 million; Executive Education open programme revenues fell from £18.4 million to £17 million; and custom programme revenues grew from £16.7 million to £18.9 million.

Expenditure in the year grew by around £7 million (under 7%), Faculty and staff costs increased from £51m to £55m (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 643 to 689 employees.

The School incurred an impairment cost of £1.3m due to the reduction in carrying value of costs incurred in previous years towards the development of the main campus, to reflect the update of these plans following the School’s acquisition of the lease for The Sammy Ofer Centre (formerly the Old Marylebone Town Hall).

Reserves

Reserves have increased by £12.1 million to over £76 million. General reserves increased by £2.5 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 increased by £8.4 million as a result of new endowments received of which £2.2 million was transferred to deferred capital grants relating to donations received for the Sammy Ofer Centre (formerly the Old Marylebone Town Hall).

The Pension Reserve decreased from £(8.4) million to £(5.4) million following an update to the interim valuation of the School Pension Scheme.

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, an increase of £0.1 million from the prior year.

The market value of the investment portfolio at the year end was £44.2 million compared to £35.5 million at last year end, reflecting an unrealised gain on revaluation of £3.5 million and new investments of £5.2 million.

Monitoring performance and principal risks

The School has in place a full risk assessment process. In addition, monthly reporting is produced for senior

Treasurer's report *continued*

management to monitor key performance measures around key areas. These include student, participant and client feedback on teaching and the experience in general; graduate recruitment; Degree Programme applications and conversions; executive education participant applications and numbers; financial risks to achieving the budget; and faculty and staff turnover. These allow us to take necessary action as quickly as possible where required during the year.

The future

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

We plan to focus on continuing to prepare to grow our revenues in all areas in anticipation of additional space coming on line; we continue to manage our operating costs efficiently and effectively whilst continuing to enhance the experience for our students and participants.

Continuing to invest in our stakeholders and in our fundraising and in delivering our campaign remains a key priority. The School's financial model relies on significant gifts to provide the much needed investment for our space; our faculty and staff; and our technology in particular so that we remain at the top of the world rankings.

Catherine Webster

Treasurer

20 November 2013

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 2013 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 2013 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

26 November 2013

Accounting policies

(a) Basis of accounting

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

(b) Basis of consolidation

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

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

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

(c) Grants

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

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

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

(d) Fee income

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

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

(e) Charitable donations accounting and income recognition

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

Unrestricted donations are recognised in the financial statements when the donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

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

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

1. Unrestricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the School;
2. Restricted permanent endowments – the donor has specified that the fund is to be permanently invested

to generate an income stream to be applied to a particular objective;

3. Restricted expendable endowments – the donor has specified a particular objective and the School can convert the donated sum into income.

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

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

(f) Foreign currencies

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

(g) Pensions

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

The London Business School 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. Investments in associate companies are shown in the consolidated balance sheet at attributable share of net assets.

(l) Stock

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

(m) Taxation status

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

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

(n) Leases

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

(o) Provisions

Provisions are recognised when the School has a present legal or constructive obligation as a result of a past event and it is probable that a transfer of economic benefit will be required to settle the obligation and a 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 2018, and a high-level forecast of income, expenditure and cash flows for the period to 31 July 2025. Detailed income forecasts and monthly cash flows have been prepared for the period to 31 July 2014. 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 2013

	Notes	2013 £'000	2012 £'000
INCOME			
Academic fees	1	93,700	89,391
Funding Council grants	2	7,501	7,434
Research grants and contracts		1,464	1,463
Other income	3	7,096	7,381
Endowment and investment income	4	1,060	901
Total income		110,821	106,570
EXPENDITURE			
Staff costs	6	55,268	51,278
Other operating expenses	7	52,020	49,300
Depreciation	9	4,139	3,923
Total expenditure		111,427	104,501
(Deficit)/ surplus after depreciation of tangible fixed assets and before tax		(606)	2,069
Share of operating surplus of associate company	11	48	58
Taxation	8	-	-
(Deficit)/ surplus after depreciation of tangible fixed assets and tax		(558)	2,127
Surplus for the year transferred from accumulated income in endowment funds	16	1,455	1,217
Surplus for the year retained within general reserves		**897**	**3,344**

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 2013

	Notes	2013 £'000	2012 £'000
(Deficit)/ surplus for the year after tax		(558)	2,127
New endowments	16	8,354	2,469
Pension fund actuarial gain/ (loss)	26	2,964	(4,189)
Increase following the revaluation of investments		3,534	1,265
Transfer to deferred capital grants	16,23	(2,150)	-
Total recognised gains for the year		12,144	1,672
Prior year adjustment		-	1,501
Total recognised gains since last annual report		12,144	3,173

Reconciliation of total reserves
for the year ended 31 July 2013

	Notes	2013 £'000	2012 £'000
Opening reserves and endowments	17	64,299	62,627
Total recognised gains for the year		12,144	1,672
Closing reserves and endowments	17	76,443	64,299

Consolidated statement of historical cost surplus and deficits
for the year ended 31 July 2013

	Notes	2013 £'000	2012 £'000
(Deficit)/ surplus for the year before tax		(558)	2,127
Difference between a historical cost depreciation charge and the actual depreciation charge for the year, calculated on the revalued amount		(968)	(1,155)
Historical cost (deficit)/ surplus for the year before tax		(1,526)	972
Taxation	8	-	-
Historical cost (deficit)/ surplus for the year after tax		(1,526)	972

Balance sheets
as at 31 July 2013

		Consolidated		London Business School	
	Notes	2013	2012	2013	2012
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	9	80,736	77,083	80,697	77,044
Other investments	10	11,649	9,575	91	205
Investment in associate company	11	357	310	-	-
		92,742	86,968	80,788	77,249
ENDOWMENT ASSETS	12	32,510	25,932	-	-
CURRENT ASSETS					
Stock		113	109	91	109
Debtors	13	10,482	9,575	6,967	5,834
Cash at bank and in hand		11,498	11,692	11,538	11,391
		22,093	21,376	18,596	17,334
Creditors: amounts falling due within one year	14	(43,176)	(40,007)	(43,676)	(41,225)
Net current liabilities		(21,083)	(18,631)	(25,080)	(23,891)
Total assets less current liabilities		104,169	94,269	55,708	53,358
Creditors: amounts falling due after more than one year	15	(441)	(495)	(441)	(495)
Net assets excluding pension liability		103,728	93,774	55,267	52,863
Net pension liability	26	(5,393)	(8,427)	(5,393)	(8,427)
Net assets including pension liability		98,335	85,347	49,874	44,436
ENDOWMENTS					
Expendable	16	7,554	7,946	-	-
Permanent	16	24,956	17,986	-	-
Reserves					
General		17,183	14,651	1,232	(328)
Pension	26	(5,393)	(8,427)	(5,393)	(8,427)
Revaluation		32,143	32,143	32,143	32,143
Total	17	76,443	64,299	27,982	23,388
Deferred capital grants	23	21,892	21,048	21,892	21,048
Total funds		98,335	85,347	49,874	44,436

Approved by the Governing Body and authorised for issue on 20 November 2013.

Sir John Ritblat
Chairman

Professor Sir Andrew Likierman
Dean

Consolidated cash flow statement
for the year ended 31 July 2013

	Notes	2013 £'000	2012 £'000
Net cash inflow from operating activities	18	4,317	7,338
Returns on investments and servicing of finance	19	778	691
Capital expenditure and financial investment	20	(5,289)	(2,453)
Management of liquid resources	21	–	–
(Decrease)/increase in cash in the year		(194)	5,576
Reconciliation of net cash flow to investment in net funds			
(Decrease)/increase in cash in the year		(194)	5,576
Cash outflow from liquid resources		–	–
Movement in net funds in the year		(194)	5,576
Net funds at 1 August		11,692	6,116
Net funds at 31 July	22	11,498	11,692

Notes to the financial statements
31 July 2013

1 Academic fees

	Notes	2013 £'000	2012 £'000
MBA		23,569	21,851
Masters in Management		4,034	3,546
Sloan Fellowship		2,574	2,673
Executive MBA		15,297	14,630
EMBA-Global / Global Asia		4,383	4,279
Masters in Finance		6,754	6,212
PhD Programme		1,122	1,103
Executive Education Open Programmes		17,000	18,434
Executive Education Custom Programmes		18,967	16,663
		93,700	89,391

2 Funding council grants

	Notes	2013 £'000	2012 £'000
Mainstream teaching funds		167	135
Mainstream research funds		3,593	3,531
Higher Education Innovation Fund		2,850	2,850
Released from deferred capital grants			
Buildings	23	411	411
Equipment	23	480	507
		7,501	7,434

3 Other income

	Notes	2013 £'000	2012 £'000
Donations received		10,200	5,164
Less: endowments retained in reserves	16	(8,354)	(2,469)
Donations income		1,846	2,695
Released from deferred capital grants	23	619	440
Catering and accommodation		2,666	2,233
Other general income		1,965	2,013
		7,096	7,381

4 Endowment and investment income

	Notes	2013 £'000	2012 £'000
Income from expendable endowments	16	11	404
Income from permanent endowments	16	528	182
Other investment income		430	227
Other interest received		91	88
		1,060	901

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

	2013 £'000	2012 £'000
Wages and salaries	45,724	42,783
Social security costs	4,754	4,291
Other pension costs	5,084	4,499
SPS pension contribution less current service cost	(294)	(295)
	55,268	51,278

Emoluments of the Dean	2013 £'000	2012 £'000
Salary	348	338
Pension	56	54
Benefits	1	1
Total aggregate emoluments of the Dean	405	393

Notes to the financial statements *continued*
31 July 2013

6 Staff costs *continued*

Average staff numbers by major category	**2013 Numbers**	**2012 Numbers**
Academic including research	106	102
Other	583	541
	689	643

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-subsidiary, 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: 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

For comparison purposes, total earnings in 2011/12 were as follows:
£100,000 - £109,999: 9, £110,000 - £119,999: 18, £120,000 - £129,999: 11, £130,000- £139,999: 2, £140,000 - £149,999: 6, £150,000 - £159,999: 12, £160,000 - £169,999: 9, £170,000 - £179,999: 9, £180,000 - £189,999: 9, £190,000 - £199,999: 4, £200,000 - £209,999: 2, £210,000 - £219,999: 6, £220,000 - £229,999: 2, £230,000- £239,999: 2, £240,000 - £249,999: 2, £250,000 - £259,999: 3, £260,000 - £269,999: 2, £270,000 - £279,999: 1, £290,000 - £299,999: 1, £300,000 - £309,999: 1, £330,000 - £339,999: 3, £430,000 - £439,999: 1, £440,000 - £449,999: 2, £460,000 - £469,999: 2, £500,000 - £509,000: 1

	2013 £'000	**2012 £'000**
Compensation for loss of office to senior staff earning in excess of £100,000 per annum	30	-

7 Other operating expenses

	2013 £'000	2012 £'000
External teaching	11,823	10,730
Teaching support	4,738	4,640
Bought in teaching	5,571	5,084
Marketing	5,870	5,374
Technology	2,030	2,757
Premises and utilities	5,748	6,195
Catering and accommodation	6,828	6,830
Other overheads	7,862	7,564
Write off of impaired assets	1,326	-
SPS pension scheme charges	224	126
	52,020	49,300

During the year the School incurred statutory audit fees of £76,810 (2012: £76,810) and audit related assurance fees of £4,800 (2012: £4,800).

8 Taxation

	2013 £'000	2012 £'000
UK corporation tax at 23.67% (2012: 25.33%)	-	-
	-	-

Notes to the financial statements *continued*
31 July 2013

9 Tangible assets

CONSOLIDATED	Land and Buildings Freehold	Long leasehold	Assets in course of construction	Facility improvements	Furniture and equipment	Total
Cost or valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 August 2012	19,850	47,000	9,163	3,304	8,039	87,356
Additions	15	-	7,706	85	1,312	9,118
Transfer from AICC	475	-	(1,571)	511	585	-
Impairment	-	-	(1,326)	-	-	(1,326)
At 31 July 2013	20,340	47,000	13,972	3,900	9,936	95,148
Depreciation						
At 1 August 2012	342	2,284	-	1,061	6,586	10,273
Charge for the year	379	2,284	-	483	993	4,139
Transfers	-	-	-	-	-	-
At 31 July 2013	721	4,568	-	1,544	7,579	14,412
Net book value						
Balance at 31 July 2013	19,619	42,432	13,972	2,356	2,357	80,736
Balance at 31 July 2012	19,508	44,716	9,163	2,243	1,453	77,083

On 31 July 2011 the freehold and long leasehold land and buildings were re-valued at £68.3 million on the basis of existing use value by Drivers Jonas, Chartered Surveyors. This includes £1.5m for one property which is currently recorded under assets in the course of construction. No revaluation took place at 31 July 2013.

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

The School reduced by £1.3m the carrying value of costs incurred in previous years towards the development on the main campus, to reflect the update to these plans following the School's acquisition of the lease for the Sammy Ofer Centre (formerly the Old Marylebone Town Hall).

9 Tangible assets *continued*

SCHOOL	Land and Buildings		Assets	Facility	Furniture	Total
	Freehold	Long leasehold	in course of construction	improvements	and equipment	
Cost or valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 August 2012	19,850	47,000	9,163	3,304	8,000	87,317
Additions	15	-	7,706	85	1,312	9,118
Transfer from AICC	475	-	(1,571)	511	585	-
Impairment	-	-	(1,326)	-	-	(1,326)
At 31 July 2013	20,340	47,000	13,972	3,900	9,897	95,109
Depreciation						
At 1 August 2012	342	2,284	-	1,061	6,586	10,273
Charge for the year	379	2,284	-	483	993	4,139
Transfers	-	-	-	-	-	-
At 31 July 2013	721	4,568	-	1,544	7,579	14,412
Net book value						
Balance at 31 July 2013	19,619	42,432	13,972	2,356	2,318	80,697
Balance at 31 July 2012	19,508	44,716	9,163	2,243	1,414	77,044

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:

	2013	**2012 (Re-stated)**
	£'000	**£'000**
Freehold	14,873	14,703
Long leasehold	9,622	9,838
Facility Improvements	11,557	14,540
	36,052	39,081

Notes to the financial statements *continued*
31 July 2013

10 Other investments

CONSOLIDATED	Other investments total £'000
At 1 August 2012	9,575
Increase in market value	1,705
Investment	369
At 31 July 2013	11,649

SCHOOL	Subsidiary companies £'000	Other investments £'000	Total £'000
At 1 August 2012	91	114	205
Disposal of investment	-	(114)	(114)
At 31 July 2013	91	-	91

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 (2012: 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.

	Notes	2013 £'000	2012 £'000
Market value as at 31 July			
Endowments		32,510	25,932
Other Investments	10	11,649	9,575
		44,159	35,507
Book cost		34,858	29,663

Investments are held in the following funds:

	2013 £'000	2012 £'000
UK equities	11,224	7,325
Corporate bonds	10,862	11,011
Fixed interest bonds	10,767	9,370
Overseas equities	11,176	7,592
Liquidity funds	130	209
	44,159	35,507

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

	2013 £'000	2012 £'000
Charitrak UK Equity Index Fund Inc	11,223	7,325
BlackRock UK Corporate Bond Index Fund	10,862	11,011
BlackRock GiltTrack Fund Dist	10,767	9,370
BlackRock Europe Ex-UK Index Fund EUR Fund Flexible Distributing Class	4,099	2,552
BlackRock North American Index Fund USD Flexible Distributing Class	3,823	2,740
BlackRock Japan Index Sub Fund USD Distribution	2,057	2,057

Movement in endowment assets

	2013 £'000	2012 £'000
At 1 August	25,932	24,035
New endowments invested	8,354	2,469
Increase in market value of investments	1,829	645
Transfer to deferred capital grants	(2,150)	-
Decrease in cash balance held for endowment funds	(1,455)	(1,217)
At 31 July	32,510	25,932

Notes to the financial statements *continued*
31 July 2013

13 Debtors

	Consolidated		School	
	2013	**2012**	**2013**	**2012**
	£'000	**£'000**	**£'000**	**£'000**
Trade debtors	7,048	5,994	1,676	2,342
Prepayments and accrued income	2,513	3,053	1,191	772
Amounts owed by subsidiary undertakings	-	-	3,182	2,193
Other debtors	921	528	918	527
	10,482	9,575	6,967	5,834

14 Creditors: amounts falling due within one year

	Consolidated		School	
	2013	**2012**	**2013**	**2012**
	£'000	**£'000**	**£'000**	**£'000**
Amounts owed to subsidiary undertakings	-	-	2,847	3,219
Course payments received in advance	18,467	17,584	18,467	17,584
Trade creditors	1,905	2,159	1,688	1,828
Social security and other taxation	1,781	1,745	1,769	1,740
Accruals and deferred income	20,491	18,415	18,694	16,797
Other creditors	532	104	211	57
	43,176	40,007	43,676	41,225

15 Creditors: amounts falling due after more than one year

	Consolidated		School	
	2013	**2012**	**2013**	**2012**
	£'000	**£'000**	**£'000**	**£'000**
Accruals and deferred income	441	495	441	495

16 Endowments

	Unrestricted permanent £'000	Restricted permanent £'000	Restricted expendable £'000	2013 Total £'000	2012 Total £'000
At 1 August 2012					
Capital	1,181	16,805	7,517	25,503	22,953
Accumulated Income	-	-	429	429	1,082
	1,181	16,805	7,946	25,932	24,035
New Endowments	5,002	294	3,058	8,354	2,469
Investment Income	91	437	11	539	586
Expenditure	-	(56)	(1,903)	(1,959)	(1,803)
Increase in market value of investments	89	1,686	54	1,829	645
Transfers to deferred capital grants	-	-	(2,150)	(2,150)	-
Other transfers	(91)	(482)	538	(35)	-
At 31 July 2013	6,272	18,684	7,554	32,510	25,932
Represented by:					
Capital	6,272	18,684	7,076	32,032	25,503
Accumulated Income	-	-	478	478	429
	6,272	18,684	7,554	32,510	25,932
Analysis by type of purpose:					
Chair funds	-	10,055	326	10,381	9,593
Scholarship funds	-	5,428	2,355	7,783	7,095
Infrastructure funds	-	-	171	171	882
Other funds	6,272	3,201	4,702	14,175	8,362
	6,272	18,684	7,554	32,510	25,932

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 2013

16 Endowments *continued*

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

	2013	2012
	£'000	£'000
Expenditure	(1,994)	(1,803)
Investment income	539	586
Surplus for the year	(1,455)	(1,217)

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 2012	2,165	2,485	2,894	3,216
New endowments	-	-	-	-
Investment income	51	58	68	74
Expenditure	(36)	(50)	(46)	(124)
Other transfers	-	-	-	-
Increase in market value of investment	218	243	292	254
At 31 July 2013	2,398	2,736	3,208	3,420

	LBS Endowment General	The Vodafone Group Foundation Scholarships - The Sir Christopher Gent Awards	Dubai Chair in Innovation Scholarship
	£'000	£'000	£'000
At 1 August 2012	1,053	2,077	1,155
New endowments	5,002	-	-
Investment income	88	47	27
Expenditure	(46)	(80)	-
Other transfers	-	-	-
Increase in market value of investment	76	196	110
At 31 July 2013	6,173	2,240	1,292

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 2012	7,946	17,986	14,651	(8,427)	32,143	64,299
Net movement	(392)	6,970	2,532	3,034	-	12,144
At 31 July 2013	7,554	24,956	17,183	(5,393)	32,143	76,443

SCHOOL	Expendable endowments	Permanent endowments	General reserves	Pension reserve	Revaluation reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2012	-	-	(328)	(8,427)	32,143	23,388
Net movement	-	-	1,560	3,034	-	4,594
At 31 July 2013	-	-	1,232	(5,393)	32,143	27,982

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

	Notes	2013 £'000	2012 £'000
(Deficit)/ surplus after depreciation of tangible fixed assets and before tax		(606)	2,069
Depreciation	9	4,139	3,923
Impairment of tangible fixed assets	9	1,326	193
Deferred capital grants released	23	(1,510)	(1,358)
Pension contribution less current service cost	26	(294)	(295)
(Increase) in stock		(4)	(4)
(Increase)/ decrease in debtors		(1,238)	439
Increase in creditors		3,340	3,146
Endowment and investment income	4	(1,060)	(901)
Interest payable	7	224	126
Net cash inflow from operating activities		4,317	7,338

Notes to the financial statements *continued*
31 July 2013

19 Returns on investments and servicing of finance

	2013 £'000	2012 £'000
Income from endowments	539	586
Interest received	463	231
Interest paid	(224)	(126)
Net cash inflow from returns on investments and servicing of finance	778	691

20 Capital expenditure and financial investment

	Notes	2013 £'000	2012 £'000
Purchase of tangible fixed assets	9	(9,118)	(5,132)
New endowments received	16	8,354	2,469
Cash movement on investments		271	3
Deferred capital grants received	23	204	207
Purchase of investments		(5,000)	-
Net cash outflow from capital expenditure and financial investment		(5,289)	(2,453)

21 Management of liquid resources

	2013 £'000	2012 £'000
Withdrawal of deposits	-	-

22 Analysis of change in net funds

	At 1 August 2012 £'000	Cash flow £'000	At 31 July 2013 £'000
Cash at bank and in hand	11,692	(194)	11,498
Net funds	11,692	(194)	11,498

23 Deferred capital grants

	Consolidated and School		
	HEFCE £'000	Other £'000	Total £'000
At 1 August 2012			
Buildings	1,862	16,143	18,005
Equipment	2,789	254	3,043
Total	4,651	16,397	21,048
Cash received			
Building	-	2,150	2,150
Equipment	204	-	204
Total	204	2,150	2,354
Released to income and expenditure			
Buildings	(411)	(596)	(1,007)
Equipment	(480)	(23)	(503)
Total	(891)	(619)	(1,510)
At 31 July 2013			
Buildings	1,451	17,697	19,148
Equipment	2,513	231	2,744
	3,964	17,928	21,892

24 Capital commitments

Capital expenditure amounting to £2.4 million was contracted for at 31 July 2013 (2012: £0.36 million).

25 Lease commitments

	Land and buildings 2013 £'000	Land and buildings 2012 £'000	Plant and machinery 2013 £'000	Plant and machinery 2012 £'000
Annual rentals under operating lease commitments are as follows:				
Expiring within 1 year	-	15	-	-
Expiring within 2-5 years	520	304	53	60
Expiring in more than 5 years	218	143	-	-
	738	462	53	60

Notes to the financial statements *continued*
31 July 2013

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
Latest actuarial valuations	**31 March 2011**	**1 August 2012**
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 2013	16.0%	N/A

Pension cost

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

	2013 £'000	2012 £'000
Contributions to USS defined benefit scheme	4,557	4,025
Contributions to SPS defined benefit scheme	340	375
Contributions to defined contribution scheme	187	99
	5,084	4,499

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 2013 are also included in this note.

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

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

Standard mortality tables were used as follows:

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

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

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

At the valuation date, the value of the assets of the scheme was £32,433.5 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 2013

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 (ie 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. The next formal triennial actuarial valuation is at 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the 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.

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

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

Since the valuation effective date, 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%.

26 Pension schemes *continued*

The actuary has estimated that the funding level as at 31 March 2013 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are sighted as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2013 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.2% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2013 was 68%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 55%.

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

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

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

The trustees believe that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set by the trustee are designed to give the fund a significant exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that, putting the issue of the USS fund's size and scale to one side for a moment, it might be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the sponsoring employers would be willing and able to make, it is necessary and appropriate for the trustee to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and importantly considers the ability of the sponsoring employers to support the scheme if the investment strategy does not deliver the expected returns.

The positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities, and the scheme actuary has confirmed that this is likely to remain the position for the next ten years or more. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and most critically the ability of the employers to provide additional support to the scheme should additional contributions be required, enables it to take a longer-term view of its investments. Some short-term volatility in returns can be tolerated and need not feed through immediately to the contribution rate. However, the trustee is mindful of the difficult economic climate which exists for defined benefit pension schemes currently, and the need to be clear about the responses that are available should the deficits persist and a revised recovery plan becomes necessary following the next actuarial valuation of the scheme as at March 2014. The trustee is making preparations ahead of the next valuation to compile a formal financial management plan, which will bring together – in an integrated form – the various funding strands of covenant strength, investment strategy and funding assumptions, in line with the latest guidance from the Pensions Regulator.

Notes to the financial statements *continued*
31 July 2013

26 Pension schemes *continued*

At 31 March 2013, USS had over 148,000 active members and the Institution had 415 active members participating in the scheme.

The total pension cost for the School was £4,557,000 (2012: £4,025,000). This includes £Nil (2012: £Nil) prepaid/outstanding contributions at the balance sheet date. The contribution rate payable by the School was 16% of pensionable salaries.

(c) SPS – FRS 17

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

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

	31st July 2013	31st July 2012
Discount rate for liabilities	4.8%	4.2%
Price inflation (RPI)	3.6%	3.1%
Price inflation (CPI)	2.6%	2.1%
Future increases to pensions in deferment	2.6%	2.1%
Future increases to pensions in payment	3.5%	3.6%
Mortality table	PCMA00/PCFA00, year of birth, medium cohort projection with 1% underpin	PCMA00/PCFA00, year of birth, medium cohort projection with 1% underpin
Expected return on assets	6%	5.4%

Value of liabilities and resulting deficit:

	31st July 2013 £'000	31st July 2012 £'000
Total market value of assets	11,522	10,032
Present value of liabilities	(16,915)	(18,459)
Net pension liability	(5,393)	(8,427)

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

	31st July 2013 £'000	31st July 2012 £'000
Opening value of assets	10,032	9,461
Expected return	549	591
Asset gain	772	(173)
Contributions (employer)	340	340
Benefits paid	(125)	(142)
Expenses paid from the Scheme	(46)	(45)
Closing value of assets	11,522	10,032

26 Pension schemes *continued*

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

	31st July 2013 £'000	31st July 2012 £'000
Equities	5,300	4,314
Bonds	3,802	3,612
Property	2,420	2,106
Total	11,522	10,032

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

	31st July 2013 £'000	31st July 2012 £'000
Opening value of liabilities	18,459	13,868
Interest cost	773	717
Experience (gain)/ loss	(97)	595
Change of assumptions (gain)/ loss	(2,095)	3,421
Benefits paid	(125)	(142)
Closing value of liabilities	16,915	18,459

The amounts recognised in the income and expenditure account are:

	31st July 2013 £'000	31st July 2012 £'000
Interest on liabilities	773	717
Expected return on assets	(549)	(591)
Expenses paid from the Scheme	46	45
Total expense	270	171

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

	31st July 2013 £'000	31st July 2012 £'000
Actual return less expected return on pension scheme assets	772	(173)
Experience gains arising on the scheme liabilities	97	(595)
Changes in assumptions underlying the present value of the scheme liabilities	2,095	(3,421)
Total recognised loss	2,964	(4,189)

Notes to the financial statements *continued*
31 July 2013

26 Pension schemes *continued*

History of experience of gains and losses

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Total market value of assets	11,522	10,032	9,461	8,339	6,881
Present value of liabilities	(16,915)	(18,459)	(13,868)	(12,752)	(12,861)
Deficit	(5,393)	(8,427)	(4,407)	(4,413)	(5,980)
Experience gain / (loss) on liabilities	97	(595)	162	383	630
Experience gain / (loss) on assets	772	(173)	335	732	(774)

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-subsidiary of the School, the Centre for Management Development Company Limited.

	2013 £	2012 £
Professor Nirmalya Kumar	38,000	19,000
Professor Randall Peterson	35,000	25,000
Professor Madan Pillutla	97,000	37,500
Professor Richard Portes	5,000	2,500
Professor Stephen Schaefer	5,000	41,000
Professor Andrew Scott	69,500	112,000
Professor Julian Franks	21,500	-
Professor Lynda Gratton	4,750	-

The only outstanding balance at the end of the year relating to the above individuals was an amount of £11,500 (2011/12: £nil) payable to Professor Scott.

Professor Malcolm Grant is a member of the HEFCE Board. The School receives £6,610,000 (2011/12: £6,516,000) 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 2012/13, the School paid £93,000 (2011/12: £68,000) 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 (2011/12: £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 (2011/12: £235,000) and charged LBSSA for catering services amounting to £144,000 (2011/12: £129,000). At the year end, the School had an outstanding balance due from LBSSA of £10,000 (2011/12: School owed £41,000).

27 Related party transactions *continued*

Sir John Ritblat, Chairman of the Governing Body, is Chairman of the Advisory Board to Delancey Real Estate Asset Management ("DREAM"). In 2012/13, the School paid £336,000 (2011/12 £192,000) 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 (2011/12: £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 £440,000 to the School (2011/12: £240,000)

The Honourable Apurv Bagri is a Commissioner of the Crown Estates Paving Commission. In 2012/13, the School paid £19,000 (2011/12: £18,000) 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 2012/13, the School paid £1,100 (2011/12: £900) 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-subsidiary 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 2012 £'000	Donations and grants 2013 £'000	Investment Income 2013 £'000	Gain on investments 2013 £'000	Expenditure 2013 £'000	Balance at 31 July 2013 £'000
40,776	8,683	1,263	3,534	(5,932)	48,324

28 Post balance sheet event

On the 26th September 2013 London Business School received a gift commitment of £25m for the acquisition and refurbishment by the School of the building known as Old Marylebone Town Hall from The Idan and Batia Ofer Family Foundation.

Governing Body

Sir John Ritblat (Chairman)
Hon President, The British Land Company PLC
The Honourable Apurv Bagri (Deputy Chairman)
Managing Director, Metdist Group
HE Amr Al Dabbagh (appointed 21 November 2012)
Chairman and CEO, Al Dabbagh Group
Mr Nigel D T Andrews
Non-Executive Chairman Old Mutual Asset Management
Mr Eric Babaev (appointed 1 August 2013)
Student Association Representative
MBA 2014
Mr John Connolly
Chairman, AMEC plc and Chairman, G4S plc
Professor James Dow (retired 30 September 2013)
Professor of Finance, David Pyott Term Chair in Finance
London Business School
Mr Saeb Eigner
Chairman, Lonworld Group
Dame Amelia Fawcett
Chairman, Guardian Media Group
Mr Julian Franks
Professor of Finance
London Business School
Professor Lynda Gratton (appointed 1 July 2013)
Professor of Management Practice in Organisational Behaviour
Mr Richard Frost
Secretary to Governing Body
Secretary, London Business School
Dr Chris Gibson-Smith CBE (retired 20 November 2012)
Chairman, London Stock Exchange
Professor Malcolm Grant CBE MA LLD (retired 31 July 2013)
Provost and President, University College London
Mr Ian Hannam (appointed 21 November 2012)
Ms Orel Hashmatia (retired 31 July 2013)
Student Association Representative
MBA 2013
London Business School
Mr Ho Kwong Ping (appointed 21 November 2013)
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 (appointed 21 November 2013)
Mr Peter Johnson (appointed 26 March 2012)
Senior Admissions Manager – Masters in Finance
London Business School
Professor Nirmalya Kumar (retired 31 July 2013)
Professor of Marketing
London Business School
Professor Sir Andrew Likierman
Dean
London Business School
Dame Mary Marsh
Director, Clore Social Leadership Programme
Mr Sunil Mittal (retired 31 July 2013)
Chairman and Group Chief Executive Officer, Bharti Enterprises Ltd
Mr Nigel Morris
Managing Partner, QED Investors LLC
Mr Terry Neill (retired 31 July 2013)
Director, United Business Media plc
Baroness Lucy Neville-Rolfe DBE CMG
Professor Randall Peterson (appointed 1 October 2013)
Professor of Organisational Behaviour
London Business School
Professor Richard Portes CBE FBA (retired 30 April 2013)
Professor of Economics
London Business School
Professor Hélène Rey (appointed 1 October 2013)
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:
The Hon Apurv Bagri
Dame Mary Marsh
Secretary:
Ms Helen Uglow, Deputy Secretary
In attendance:
Executives:
Professor Sir Andrew Likierman, Dean
Mr Richard Frost, School Secretary
Mr David Harrison, Finance Director

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
In attendance:
Executives:
Professor Sir Andrew Likierman, Dean
Ms Susie Balch
Ms Nina Bohn

ESTATES COMMITTEE
Reports to Governing Body
Chair:
Sir John Ritblat
Members:
The Hon Apurv Bagri
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
Baroness Lucy Neville-Rolfe
Mr Francis Finlay
Secretary:
Mr David Harrison, Finance Director
In attendance:
Executives:
Professor Sir Andrew Likierman, Dean
Ms Catherine Webster, Treasurer

INVESTMENT COMMITTEE
Reports to Finance Committee
Chair:
Ms Catherine Webster, Treasurer
Members:
Professor Stephen Schaefer
Professor Andrew Scott
Professor Sir Andrew Likierman, Dean
Secretary:
Mr David Harrison, Finance Director

NOMINATIONS COMMITTEE
Reports to Governing Body
Chair:
Sir John Ritblat
Members:
The Hon Apurv Bagri
Professor Sir Andrew Likierman, Dean
Dame Mary Marsh
Faculty Representative
Secretary:
Mr Richard Frost, School Secretary

REMUNERATION COMMITTEE
Reports to Governing Body
Chair:
Sir John Ritblat
Members:
The Hon Apurv Bagri
Professor Sir Andrew Likierman, Dean
Mr John Connolly
Mr Francis Finlay
Secretary:
Mr Philip Willatt, Director Human Resources

TREASURER
Ms Catherine Webster, Treasurer & Associate Dean, Operations

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