

FINANCIAL INFORMATION

2015-2016

The 2015-2016 academic year was marked by ongoing macroeconomic uncertainty. IESE continued to help businesses and their leaders to adapt to this landscape of uncertainty. During the academic year, the school maintained its strong competitive position. Its Executive Education offering throughout the 2015-2016 period received international recognition as being among the best in the world. IESE Custom Programs consolidated their position while national and international Open Programs experienced significant growth in participant numbers.

The international nature of the IESE MBA program, with students from 55 different countries, continues to be an important driver of achieving of good results, especially when taking into account that the number of MBA applications worldwide is leveling out. The EMBA programs delivered in Barcelona and Madrid were also well received.

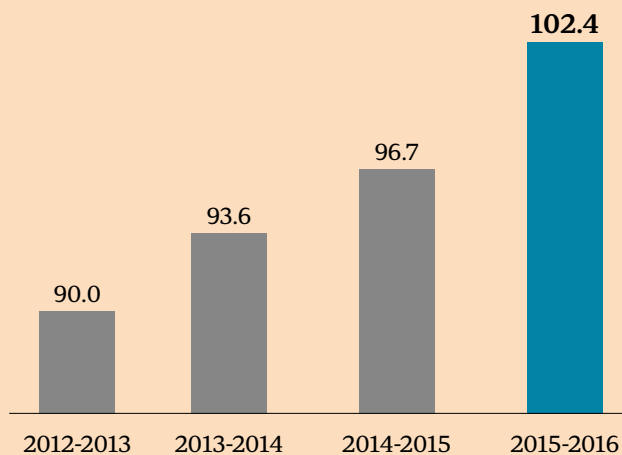
Research activity increased during the academic year. New Chairs were created and there were more research projects carried out both for international organizations and for IESE research centers.

EXECUTIVE SUMMARY



IESE increased its revenues to €102.4 million in 2015-2016 and expenditure reached €102.1 million. This resulted in a positive net income of €292,992, after taking into account €6.3 million of depreciation expenses and investment in developing the Barcelona, Madrid, Munich and New York campuses.

REVENUE (in million €)



This year's financial report is based on IESE's accounting records from all programs and activities, and reflects all related economic flows, consolidating the activities of New York and Munich. Legal requirements and accounting principles have been applied to reflect the school's assets and financial situation accurately. As the graduate business school of the University of Navarra – a nonprofit entity – IESE's accounts are audited with those of the rest of the University (available at www.unav.edu).

The accounts are compiled in accordance with the provisions specified in the Corporate Law Code in Spain and the New General Accounting Standards, whose main administrative framework is that of a nonprofit organization. In addition, financial statements follow the standards and procedures of the Spanish Association of Accounting and Business Administration and the pertinent fiscal regulations. The financial statements obtained using Spanish accounting standards are not substantially different from those obtained when US GAAP or International Financial Reporting Standards (IFRS) apply.



IESE-USA Inc. and IESE GmbH carry out the school's activities in the United States and Germany, respectively. These entities maintain their accounting records according to the legislation in their respective countries. In accordance with current legislations, IESE, IESE-USA and IESE gGmbH have a nonprofit status.

REVENUE

Revenue was €102.4 million in 2015-2016, 6 percent more than the previous year when revenue was €96.7 million. The school was able to grow in its main areas of activity, with a notable increase in research activity and in the number of program participants and students.

The main drivers of this growth in programs were the MBA programs, which had revenue of €41.5 million, 15 percent more than the previous year. Programs for executives grew 11 percent and contributed €51.8 million in revenue.

PROGRAMS REVENUE (in million €)

2015-2016	92.9
2014-2015	87.6
2013-2014	84.3
2012-2013	81.9

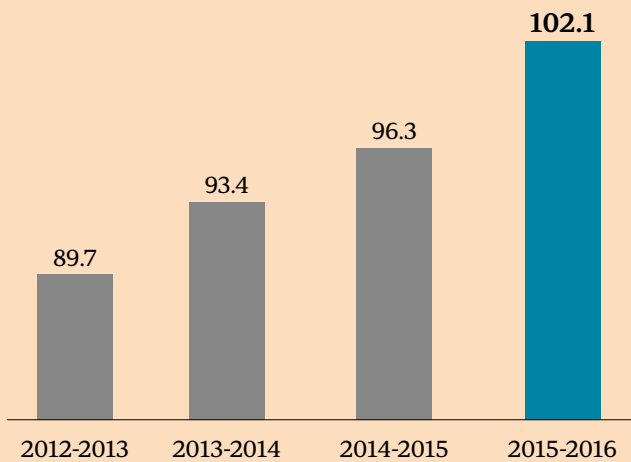
Regarding research activity, it is worth noting that international funding obtained for competitive projects was 75 percent higher than in the previous year. In total, research revenue stood at €4.1 million.

In addition to programs and research revenue, contributions from the Alumni Association reached €4.1 million. Other income, including donations and income from partnership agreements, reached €1.1 million.

EXPENSES

Expenses rose from €96.3 million to €102.1 million in the 2015-2016 period, an increase of 6 percent. This was due to Opex corresponding to a higher number of program participants and an increase in research activity. It also reflects the higher operating costs of technology and facilities that have arisen as a consequence of the investment plan of recent years.

EXPENSES (in million €)



IESE has undertaken a process of digitalization that has provided the school with a technology infrastructure fundamental to carrying out its activities. As a result, projects have been implemented that improve students' learning experience. A new

technology platform for internal administrative and teaching management processes has also been developed, as has a virtual campus for program participants. Technology, operating and capital expenses accounted for 10.3 percent of total expenses.

IT SPENDING* (in million €)

2015-2016	10.4
2014-2015	11.0
2013-2014	10.5
2012-2013	10.4

IESE continues to improve and expand the facilities of its campuses. The new campus in Munich received €2.8 million in investment over the last two years and the expansion of teaching spaces in Barcelona – to support the increased demand for MBA places and resulting extra section in 2016-2017 – received €6 million (€3 million in 2015-2016 and €3 million in 2016-2017.)

In total, approximately one third of investment made was directed toward facilities and two thirds toward technology.

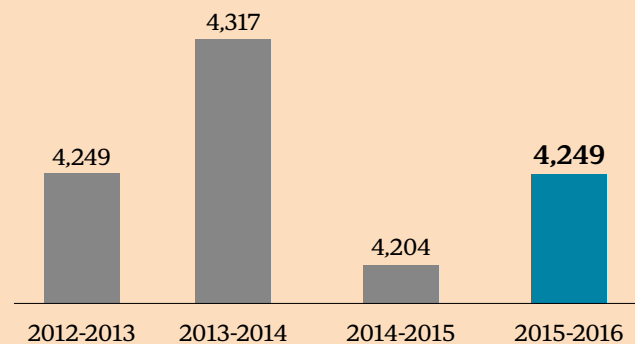
*Operational and capital expenditure.



ALUMNI ASSOCIATION

In 2015-2016, the IESE Alumni Association's total income grew to €4.2 million, 1 percent more than in the previous year, as a result of an uptick in membership. Expenses increased by 5 percent to €3.5 million for services offered to effectively carry out planned projects.

ALUMNI ASSOCIATION REVENUE (in thousand €)



Alumni continue to contribute principally to junior faculty development, scholarships, and research. The IESE Alumni Association Executive Committee defines the criteria and objectives by which the association allocates its resources. In 2015-2016, the Executive Committee apportioned €728,670 to these categories. 29 percent of the Alumni Association's surplus was devoted to MBA scholarship, 22 percent was earmarked to finance research projects, 45 percent was devoted to training junior faculty and 4 percent to research prizes. Since 2002, these Alumni Association prizes have been awarded to IESE faculty to recognize excellence in research.

ALUMNI CONTRIBUTION TO IESE (in thousand €)

2015-2016	728
2014-2015	858
2013-2014	1,137
2012-2013	888

INDEPENDENT AUDITOR'S REPORT



KPMG Auditores, S.L.
Edificio Iruña Park
Arcadio M. Larraona, 1
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Independent Auditor's Report in accordance with International Standards on Auditing on special-purpose combined financial statements

To the Executive Committee of the
IESE Business School

We have audited the accompanying special-purpose combined financial statements of the activity of the IESE Business School and the activity of IESE USA, Inc. and IESE, gGmbH (hereinafter the "Combined Group"), which comprise the combined balance sheet at 31 August 2016, the combined income statement for the year then ended and explanatory notes to the special-purpose combined financial statements containing a summary of significant accounting policies and other explanatory information (hereinafter the combined financial statements). The combined financial statements have been prepared by the General Administrator on the basis of the accounting criteria and principles identified in note 2 of the explanatory notes to the accompanying combined financial statements, which the Entity considers to be those best suited to the purpose for which they have been prepared.

General Administrator's Responsibility for the Combined Financial Statements

The General Administrator is responsible for the preparation of the accompanying combined financial statements in accordance with the accounting criteria and principles identified in note 2 of the explanatory notes to the combined financial statements, and for such internal control as the General Administrator considers necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying combined financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit in accordance with International Standards on Auditing involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

KPMG Auditores S.L., sociedad española de responsabilidad limitada y firma miembro de la red KPMG de firmas independientes afiliadas a KPMG Internacional Cooperative ("KPMG Internacional"), sociedad suiza.

Inscrita en el Registro Oficial de Auditores de Cuentas con el nº.50762, y en el Registro de Sociedades del Instituto de Contadores Jurados de Cuentas con el nº.10. Reg. Mer Madrid, T. 11.961, F. 90. Sec. B, H. M -108.007, Inscrp. 9 N.I.F. B-78510153

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements of the IESE Business School, IESE USA, Inc. and IESE Business School, gGmbH at 31 August 2016 have been prepared, in all material respects, in accordance with the accounting criteria and principles identified in note 2 of the explanatory notes to the combined financial statements.

Accounting Basis

We draw your attention to note 2 to the combined financial statements, which describes the basis of presentation, including the approach used in their preparation and the purpose for which they have been prepared. As indicated in this note, the combined financial statements have not been prepared to comply with legal requirements, but to provide information on the financial position and results of the Combined Group to the Executive Committee of the IESE Business School. This matter does not modify our audit opinion.

Other matter

The accompanying financial statements have been audited under International Standards on Auditing. Under no circumstances may this report be considered an auditor's report in the terms envisaged in prevailing legislation regulating the audit of accounts in Spain.

KPMG Auditores, S.L.



Gregorio Moreno

22 December 2016

BALANCE SHEET

In Euros

COMBINED FINANCIAL STATEMENT

ASSETS	31.8.15	31.8.16*
Intangible assets	6,304,731	5,623,818
Computer software	5,929,216	5,360,961
Rights over leased assets in use	375,515	262,857
Property, plant and equipment	20,565,702	21,491,041
Land and buildings	13,603,043	14,408,592
Technical installations and other items	3,418,266	4,162,709
Under construction and advances	3,544,393	2,919,740
Non-current investment	17,223,842	19,720,475
Equity instruments	15,551,528	18,766,975
Loans to companies	1,530,976	789,003
Other financial assets	141,338	164,497
Total non-current assets	44,094,275	46,835,334
Trade and other receivables	14,906,059	14,149,770
Trade receivables	10,819,534	12,213,778
Receivables	3,160,954	1,296,137
Personnel	886,045	590,821
Public entities, other	39,526	49,034
Current investments	2,675,948	694,628
Other financial assets	2,411,461	694,628
Prepayments for current assets	3,562,496	2,592,225
Cash and cash equivalents	1,464,913	2,466,624
Cash	1,464,913	2,466,624
Total current assets	22,609,416	19,903,247
TOTAL ASSETS	66,703,691	66,738,581

*Financial information for 2015-2016 is consolidated and includes IESE New York and IESE Munich, which have been audited together for the first time. Information for previous years is also consolidated but not audited, as auditing for IESE New York and IESE Munich was carried out separately in previous years.

LIABILITIES AND NET ASSETS	31.8.15	31.8.16*
Funds and reserves	24,202,051	22,588,746
Retained surplus	23,843,877	22,295,754
Surplus for the year	358,174	292,992
Valuation adjustments	575,502	730,072
Grants, donations and bequests	7,702,186	5,792,093
Total net assets	32,479,739	29,110,911
Non-current provisions	3,032,447	3,233,068
Long-term employee benefits	3,032,447	3,206,868
Other provisions	-	26,200
Non-current payables	290,000	913,891
Other financial liabilities	290,000	913,891
Total non-current liabilities	3,322,447	4,146,959
Current payables	2,886,856	3,338,528
Loans and borrowings	1,021,332	2,450,253
Other financial liabilities	1,865,524	888,275
Trade and other payables	11,272,119	13,089,801
Suppliers	5,181,780	7,269,304
Other payables	145,909	2,313
Personnel (salaries payable)	4,682,298	4,548,901
Public entities, other	1,262,132	1,254,933
Advance from customers		14,350
Current accruals	16,742,530	17,052,382
Total current liabilities	30,901,505	33,480,711
TOTAL LIABILITIES AND NET ASSETS	66,703,691	66,738,581

INCOME STATEMENT

In Euros

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COMBINED FINANCIAL STATEMENT

CONTINUING OPERATIONS	2014-2015	2015-2016*
Income on the entity's own activity	92,955,393	98,206,065
Services rendered	91,127,348	96,064,575
Grants, donations and bequests recognised in surplus for the year	1,828,045	2,141,490
Other operating income	1,673,116	2,297,035
Non-trading and other operating income	1,673,116	2,297,035
Personnel expenses	(46,594,749)	(48,702,176)
Salaries and wages	(37,968,704)	(39,224,622)
Employee benefits expense	(8,626,045)	(9,477,554)
Other operating expenses	(44,354,108)	(48,153,228)
External services	(44,286,521)	(47,789,950)
Tax	(15,245)	-
Losses, impairment and changes in trade provisions	(52,342)	(363,278)
Amortisation and depreciation	(5,141,919)	(5,246,995)
Grants, donations and bequests taken to surplus for the year	1,002,054	1,046,629
Overprovision	3,075	-
Impairment and gains on disposal of fixed assets	(73,966)	14,792
Other income	(100,922)	117,308
RESULTS FROM OPERATING ACTIVITES	(632,026)	(420,570)
Finance income	297,979	243,171
Marketable securities and other financial instruments	297,979	243,171
Other	297,979	243,171
Finance costs	(27,191)	(36,164)
Other	(27,191)	(36,164)
Exchange gains	(16,737)	41,792
Impairment and gains on disposal of financial instruments	736,149	464,770
Impairment and losses	(39,401)	-
Gains on disposal and other	775,550	464,770
NET FINANCE INCOME	990,200	713,569
SURPLUS BEFORE TAX	358,174	292,999
SURPLUS FROM CONTINUING OPERATIONS AND COMBINED SURPLUS FOR THE YEAR	358,174	292,992

*Financial information for 2015-2016 is consolidated and includes IESE New York and IESE Munich, which have been audited together for the first time. Information for previous years is also consolidated but not audited, as auditing for IESE New York and IESE Munich was carried out separately in previous years.

GENERATING GREATER IMPACT



IESE's programs and other educational activities are economically self-supporting, as they are financed through academic fees (see executive summary for financial information).

The school offers scholarships and other financial aid for students with outstanding academic credentials and limited financial means. IESE's research is partially financed through public funds available to research groups. However, in many cases this public funding is not sufficient. IESE is also committed to campus-development projects that require considerable investment. These allow the expansion of school activities and a consequently greater impact on people, companies and society.

IESE is a non-profit institution that relies on the generous help of people, in many cases alumni, as well as Sponsoring Companies and Institutions. This has allowed the school to strengthen its teaching and research activities and offer more financial aid to students and doctoral candidates. It has also permitted more ambitious expansion and development plans for the future to be put into place.

In 2015-2016, pledges amounted to €10.5 million. Part of this was received immediately while the rest

will be received in the future, as some contributors pledge to donate funds over a number of years.

The economic resources received are managed according to the wishes of the donor, whether it is to cover the current year's annual financial requirements or to build up a fund created to cover future needs. In any case, all donations made eventually go to one of three areas: campus development, scholarships or research.

CAMPUS DEVELOPMENT

Throughout 2015-2016, IESE continued to invest to improve its facilities and adapt them to its new activities. The increase in MBA students, leading to a new fifth section, and the increase in the number of new clients of in-company programs, as well as the increase in other school activities, were the main reasons why IESE decided to expand its facilities on the Barcelona campus. With an investment of €10 million across a three-year plan (2015-2018) and a totally renewed and expanded area of 3,400 square meters, the project represents a 25 percent expansion of the total area of the southern IESE campus in Barcelona. The work includes the renovation and extension of part of the old building and the construction of a new one, with an auditorium for 350 people, two classrooms and numerous offices and work rooms.

The project also includes a second phase, at 18 Pearson Street in Barcelona, which provides for the construction of a new facility for the research department and the doctoral program. IESE is a worldwide benchmark for excellence in research, backed by the prestige of the academic research of its international faculty, which is published and shared in academic congresses, business forums and the media.

The IESE Munich campus developed investments in 2015-2016 to adapt its facilities to the educational needs of the school. The investment plan for facilities will culminate on the IESE campus in Madrid, where construction of a new building is expected to begin soon.

As well as these specific projects, it should be noted that a substantial amount is committed each year to improve buildings and facilities in order to better meet teaching needs. In 2015-2016, the school invested €3.9 million in such improvements.

SCHOLARSHIPS

One of the priorities of corporate development is to fund student grants and scholarships with the overall objective of attracting the best candidates and promoting diversity among participants. With the help of several institutions, IESE committed €3.5 million in 2015-2016 to a scholarship program aimed at promoting enrollment. Other entities that benefit from this scholarship program include NGOs, foundations and other non-profit organizations, which receive partial scholarships for executive education programs for their managers.

In addition to this, and in collaboration with IESE International Foundation, the School offers a scholarship program aimed at helping professors from emerging countries in their doctoral studies. During the academic year, €752,475 in scholarships were awarded to 39 PhD students from 20 countries.

Some contributions are donated exclusively to fund grants while others are unrestricted corporate donations that the school allocates to student grants. Among the contributors is the Alumni Association, which donated €210,000 toward MBA grants and allocated €327,409 to faculty development.

RESEARCH

Research is one of the areas to which the contributions that IESE receives are specifically allocated. The school committed €13.2 million to this activity, including part of faculty salaries. The activity of endowed Chairs is of particular note. Together with Research Centers, IESE Chairs received donations totalling €2.4 million. The commitment of the Alumni Association is also noteworthy; in 2015-2016 it provided €161,261 to support IESE professors' research projects.

ENDOWMENT FUND

In order to provide continuity over time and avoid the negative effects of volatility in the economy on the stability of scholarship programs and research projects, IESE receives donations that are invested in financial products. These seek to maintain the purchasing power of the initial capital and at the same time fund initiatives through investment gains, always in accordance with the wishes of the donors.

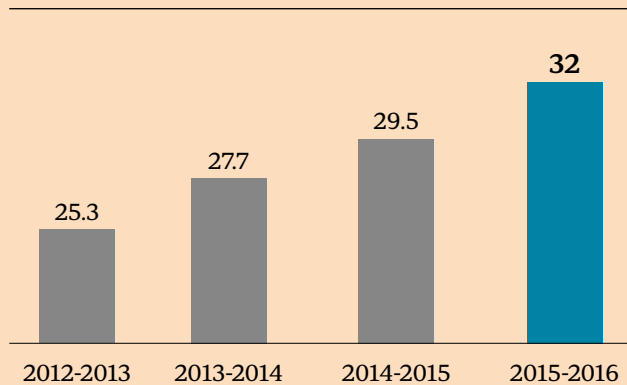
The endowment is an investment fund that seeks to support research activities and scholarship programs, as well as the overall institutional development of IESE. This allows the undertaking of future projects, in many cases innovative and long term, by providing a stable source of income that can be devoted to strategic projects. The endowment is an instrument of academic excellence, which in a very competitive market helps IESE attract the best talent: professors, researchers and students. It is managed so that future generations have at least the same performance capacity (intergenerational equity). To this end, part of the profits are reinvested in the fund itself, so that purchasing power is not lost due to the effects of inflation. In this way, the impact of a donation is permanent, allowing IESE to undertake more ambitious and long-term projects.

The endowment makes investments while taking a long-term perspective, carefully determining the parameters of profitability and risk to meet expected goals. It aims to balance the needs of current and future beneficiaries in order to obtain a steady and sustainable flow of funds to financial aid and long-term projects, while its capital increases in line with inflation in Spain, where most expenses are incurred.

The goal is to annually distribute (for financing activities) 4 percent of the average value of the endowment during the previous three years.

ENDOWMENT VALUE GROWTH

(value in million €)



At the close of the fiscal year that ended on August 31, 2016, the value of the IESE endowment was €32 million, representing an increase of 8.6 percent over the value at the beginning of the year. This increase in net worth, which amounts to €2.5 million, is the result of the combined effect of three flows:

- **Financial Return:** Nominal return on financial investments during 2015-2016 was 5.5 percent (€1.6 million), obtaining an average nominal return (composite) of 6.8 percent during the last three years and 6.1 percent during the last five years.
- **Expenditure:** in 2015-2016 the Endowment distributed a total amount of €1.1 million, from which €390,000 was spent on Doctoral Program scholarships; €157,000 on MBA grants; €453,000 was the amount used to finance IESE Chairs, while the remaining €101,000 financed other research projects.
- **New Donations:** The endowment continues to grow through new donations. Many are received through the IESE International Foundation, which collaborates with IESE to support the development of teaching and research activities. In 2015-2016, the increase in the endowment through new donations was over €2 million.

For a complete report on the investing activity of the Endowment, see the Endowment Management Report 2015-2016 at the web page of the IESE International Foundation (www.fiese.org).

SUPPORTING ORGANIZATIONS

IESE is supported by other nonprofit organizations in the fundraising activity. Several independently governed foundations contribute to the school in accordance with their own statutes. Full details can be found in their own published annual reports:


- **IESE International Foundation** promotes excellence in teaching, research and innovation from a humanistic standpoint. It collaborates with IESE's endowed Chairs, and in 2015-2016 it raised scholarship funds for foreign students enrolled in IESE's Master of Research in Management, PhD and MBA programs. The foundation also works with IESE's partner schools in Africa.
- **Fundación IESE** promotes and develops comprehensive academic, cultural and professional education based on humanistic values. Among its activities is the provision of funding for the construction of IESE facilities; a current campaign exists to support the Madrid campus extension. Fundación IESE also provides funding for tuition and grants for university students and researchers.
- **The US IESE Foundation** is a US 501[c]3 nonprofit organization aids management-related research and education programs in nonprofit organizations in the US and other countries. Its activities include supporting the Alumni Learning Program sessions and helping IESE establish a New York research center.
- **International Foundation for Educational Development** supports culture and training by awarding university scholarships, funding cultural and educational centers, promoting scientific research, backing university initiatives, and leading social and economic development and volunteer work. In the last 10 years it has helped build some of IESE's facilities, including the 2007 Barcelona campus expansion, and continues to support the school's development.



www.iese.edu

**A WAY TO LEARN
A MARK TO MAKE
A WORLD TO CHANGE**

 IESE Business School

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