

FINANCIAL INFORMATION **2018-2019**

EXECUTIVE SUMMARY

IESE's activities in the fiscal year (FY) ending on August 31, 2019 showed a growth in both revenues and expenditure, resulting in a slightly reduced operating profit compared to the previous year. Revenue rose 2.4% to €112.8 million while expenditure increased 3.8% to €112.3 million. The main source of the school's income was academic fees, although it was also supported by research grants and contracts, donations and financial income. The largest revenue growth drivers were MBA programs, which consolidated their positive trend of recent years. Increases in expenditure were driven mainly by rises in salaries, which represented 48% of the total.

The resulting operating profit margin was influenced by the provision of new equipment for the launch and running of the new Master in Management (MiM) and EMBA Munich programs, as well as by Development Division. After applying amortizations and campus costs, the final result was a positive net profit of €0.5M

IESE is grateful for the ongoing support of its alumni, friends, donors and sponsors. Thanks to their contributions, IESE was able to increase its research activities through its centers and chairs, recruit top student and faculty talent, innovate with new technologies and carry out long-term campus-development projects, such as the expansion of IESE Madrid. IESE's endowment closed the year with a value of €36.5 million.

This report is drawn from IESE's accounting records from all programs and activities. It reflects all related economic flows, consolidating the activities of New York and Munich. Legal requirements and accounting principles have been stringently applied to accurately reflect the school's assets and financial situation. As the graduate business school of the University of Navarra – a nonprofit entity – IESE's accounts are audited together 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 gGmbH are responsible for 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.



New Madrid campus expansion.

PROGRAMS

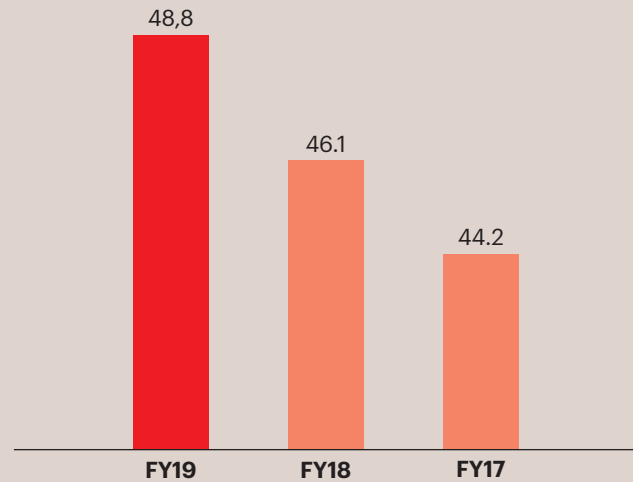
Programs generated revenues of €101 million, an increase of 2.2%. In the Masters programs, the rise was 5.7%. Revenue for Executive Education programs was very similar to that of the previous year, reaching a total of €53.5 million. Noteworthy developments in this area included the progress of Focused Programs and the consolidation of long international programs. The Masters programs were well subscribed, with the number of students growing year-on-year, especially in the full-time MBA program and the Global Executive MBA program.

IESE's international reach continued to be reflected in class profiles, with students from 75 countries enrolled in the first year of the full-time MBA. The Executive MBA was offered in Madrid, Barcelona and São Paulo. Programs for general managers were delivered in 15 cities in Europe, North America, Asia and Latin America, and the school retained and strengthened its international alliances with top business schools around the world.

The reputation of IESE programs was reflected in their international rankings: the *Economist* rated the full-time MBA as the best in Europe and the sixth best worldwide, while the *Financial Times* ranked it 12th globally and third best in Europe. The FT 2018 Executive MBA Ranking placed IESE's Global Executive MBA in ninth position worldwide and

fourth in Europe. For a record-breaking fifth straight year, the *Financial Times* ranked IESE Executive Education programs as the best in the world.

DEGREE PROGRAMS REVENUE (in million €)



MBA FULL-TIME

Class of	2020	2019	2018
Enrollment	367	354	353
Fees (€)	88,150	81,600	77,500



Open programs for executives in Spain constituted an important part of the Executive Education portfolio, representing €21.7 million (41%) of the total €53.5 million. During the academic year, 21 programs were run in cities including Madrid, Barcelona, Valencia, Santiago, Bilbao, Pamplona and Palma de Mallorca.

International general management programs also took place around the world. The Barcelona campus maintained its activity with two editions of the AMP and PMD programs, in addition to the Munich and Warsaw programs in Europe. During the academic year, the Global CEO Africa program began in partnership with two African schools: the Lagos Business School of Nigeria and the Strathmore Business School of Kenya. Open programs in New York showed good results, with increased enrolment in the AMP Americas, the Global CEO Program (GCP), and the Driving Leadership Potential (DLP), the latter run in New York. Finally, in São Paulo, an edition of the AMP and another of the PMD took place in partnership with ISE. These programs generated revenues of over €8 million and have grown around 20% in four years.

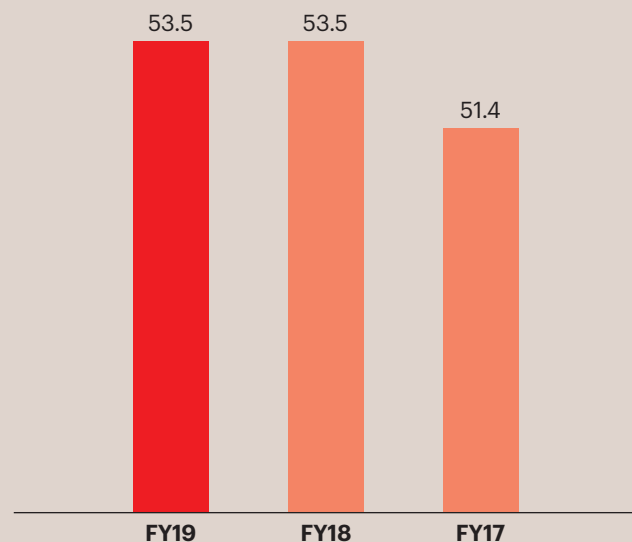
Activity in custom programs was similar to that of the previous year, with new clients coming on board and a recurring customer ratio of more than 60%. Programs were delivered to 59 companies from 18 countries covering the 5 continents.

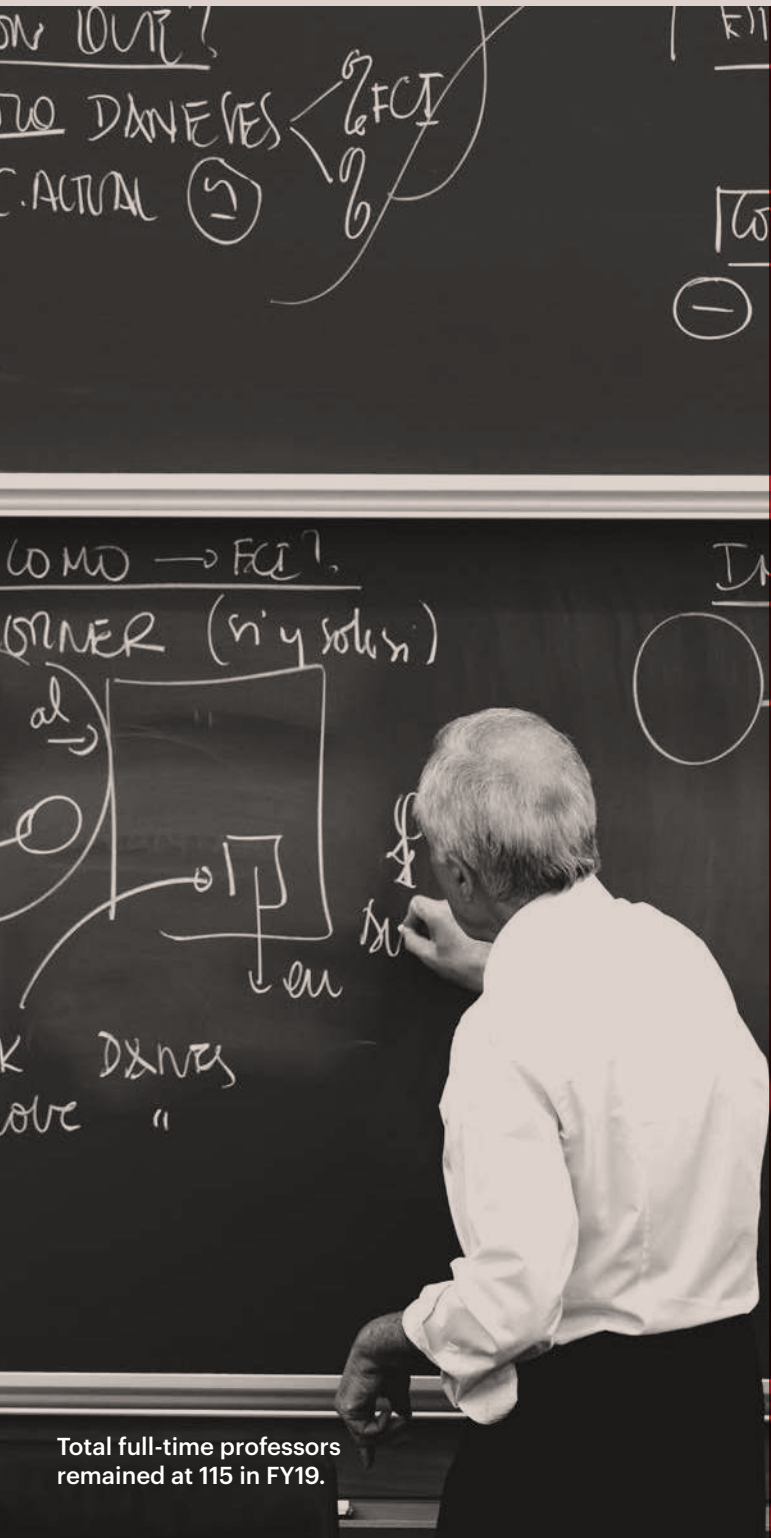
Results in Focused programs were noteworthy with growth of more than 30%. A portfolio of 45 programs

addressed the current issues affecting different industrial sectors, especially the impact of digitalization on management. Attendance was higher than the previous academic year. The programs were offered on the Barcelona, Madrid, Munich and New York campuses.

A highlight of the year was the launch of the school's first fully online program, with six more to follow in the 2019-2020 academic year. IESE's online learning experiences are enhanced with individual, peer-to-peer and/or faculty-led activities, which run alongside or in between sessions.

EXECUTIVE EDUCATION REVENUE (in million €)





Total full-time professors remained at 115 in FY19.

Personnel expenditure grew 5%, in line with predictions. Seven new full-time professors joined the school. This expanded faculty will help IESE deliver new programs, cover the retirement of existing faculty members, and pursue new lines of relevant research. Some teams grew to prepare for planned future projects such as the Master in Management (MiM) and EMBA Munich programs, which begin in 2019-2020.

FACULTY

	FY19	FY18	FY17
Full-Time Professors	115	114	110
Part-Time Professors	68	68	65
Expenses (in thousand €)	26,164	24,857	23,941

Marketing expenses also increased in order to give greater support to Executive Education programs, and to make the most of the increasing possibilities offered by technology to contact and attract potential candidates.

Technology spending increased too, as a logical consequence of IESE's digitalization process. In particular, the expenses related to system security are growing and remain likely to continue doing so for the immediate future.

In terms of expenses resulting from infrastructure and internal services, the volume reached by some providers

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INCOME STATEMENT (in thousand €)

	FY19	FY18	FY17
Revenue	112,832	110,151	106,121
Academic fees	101,749	99,565	95,476
Grants & contracts	1,500	1,568	1,672
Donations	4,449	5,024	5,001
Financial income & others	5,134	3,994	3,972
Expenses	112,355	108,241	105,307
Faculty & staff	54,426	51,540	50,484
Collaborators	4,739	5,035	5,349
Marketing	5,364	4,414	3,811
Technology	5,303	4,940	5,144
Catering	6,023	5,927	5,986
Travel & accommodation	6,699	6,413	5,814
Teaching material & printing	3,628	3,328	3,233
Facilities & supplies	9,639	8,731	8,638
Professional services	5,839	6,702	6,916
Depreciation	6,326	6,053	5,564
Other	4,369	5,159	4,367
Net Margin	478	1,910	814

of services across different campuses has allowed the school to rationalize expenses in some general services and infrastructure by means of an active policy to seek out savings.

RESEARCH

In accordance with strategic priorities, IESE devoted more resources to research. Grants from research activities increased by 20%, mainly from European funds, company grants and endowment returns for the Chairs.

The research Chairs are financed by allocated funds from the endowment and by their capacity to generate income. During the academic year they were allocated resources worth €600,000.

With respect to the Research Centers, the volume of activity continued to grow, generating income worth

€1.4 million (sponsorships, projects, etc.). This year, the new Center for Corporate Governance was created.

In addition to the funds channeled through the Chairs and Research Centers, research projects worth €2.6 million (€1.4 million obtained from competitive projects financed by the European Union and €1.2 million financed by IESE itself) have been funded.

RESEARCH

	FY19	FY18	FY17
Research Grant (in thousand €)	4,600	3,825	4,032
Articles in refereed journals	74	51	68
Cases	75	80	102

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INVESTMENTS

In the last two years, the high investment rate in technology has slowed down as the pillars of core solutions have been established. In 2018-2019, spending on cybersecurity increased, eventually accounting for 30% of the year's technology spend.

Investments related to the modernization and improvement of campus buildings and facilities, in order to improve the experience of program participants and students, were maintained at around €5 million.

During the 2018-2019 academic year, the catering service facilities were renewed on the Barcelona south campus, to serve the full-time MBA, and a new space for entrepreneurs, the Venture Hub, was created with the support of donations from companies and individuals.

The school's investments in upgrading, renewing and modernizing facilities in recent years have substantially reduced its energy consumption, lowering water use, decreasing waste generation and cutting CO2 emissions. Measures included the installation of solar panels, lower-flow water systems, replacement temperature-control systems and awareness campaigns to reduce paper consumption.

In 2019, and ahead of schedule, IESE achieved the first of three major goals set out in the European Union's Sustainable Development Strategy: a 20% improvement in energy efficiency. In 2020, it aims to achieve the other two: a 20% reduction in greenhouse gas emissions, and ensuring that 20% of energy consumed is from a renewable source.

This academic year, a total of €5.3 million of ordinary investments were made, financed with the school's own resources.

ENGAGEMENT

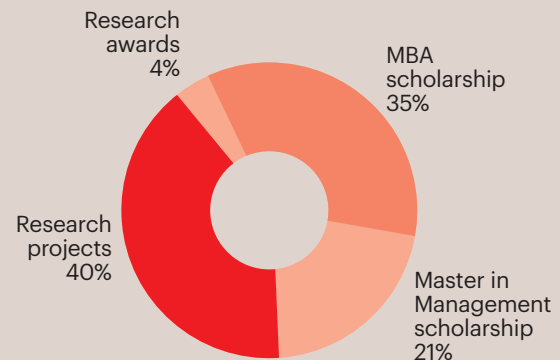
The Alumni Association remains one of the strategic levers of IESE. Membership of students across the globe surpassed 50,000 this year. The Alumni Learning Program had more than 21,000 participants in more than 200 sessions delivered

on the New York, Munich, Madrid and Barcelona campuses.

In addition to the Alumni Learning Program, new professional development services were set up through workshops. Moreover, a mentoring platform was launched in which former students offer their time and experience as mentors.

During the academic year, alumni contributions reached a total of €4.5 million. The surplus for this year was €1.1 million and was allocated in 2019-2020 to research projects and awards, as well as to MBA and MIM Scholarships. The distribution criteria for the surplus are defined by the IESE Alumni Association Executive Committee.

ALUMNI CONTRIBUTION TO IESE



ADVANCEMENT

IESE depends on the support of its alumni, friends, partners and corporate community who share our belief that business leaders can change the world for the better. They understand that in order to develop future leaders who are ready to contribute to society, and respond to 21st century challenges, we must create a powerful, impactful learning experience.

The school works to transform lives by investing in people through scholarships; developing new ideas; innovating through state-of-the-art methodologies and tools; and developing global understanding by reinforcing our physical presence in strategic locations.

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IESE is very grateful for the 365 donors (including 119 corporate donors) who have supported the school this year, thanks to whom €5.3 million was received, 32% more than the previous year.

This ongoing assistance allows the school to continue to make the necessary investments to improve the business education we provide. Over the course of the academic year, IESE also signed or renewed some 30 agreements with Partner Companies that made financial contributions.

A total of €2 million was used in line with IESE's goal of increasing global understanding, with the main project being the expansion of the Madrid campus. The midpoint fundraising objective for the new campus building was reached with €18.3 million (54%) of the total €34 million committed at year-end.

As part of IESE's commitment to people, €1.5 million of donations were set aside for the scholarship fund; and €942,000 of those funds were apportioned to students enrolled in IESE's Master of Research in Management, PhD and MBA programs.

A fundraising campaign was launched in November 2018 targeting alumni, with the goal of obtaining more resources for the IESE scholarship program, which enables talented students to benefit from the IESE experience.

€1.8 million was invested in the important area of generating and sharing new ideas. These donations allow IESE to carry our relevant and impactful research that helps students to become competent leaders, and helps corporate leaders to find solutions for the real challenge they face.

There are eleven research areas of relevance where IESE focuses its energies, all of which require donor support: Big Data, Business and Society, Corporate Governance, Entrepreneurship, Financial Institutions, Health, Human Ecosystem, Strategy, Technology and Organizations, Work and Family, and the Africa Initiative.



IESE depends on the support of its alumni and corporate community who share our belief that business leaders can change the world for the better.

INDEPENDENT AUDITOR'S REPORT



KPMG Auditores, S.L.
Edificio Iruña Park
Arcadio M. Larraona, 1
31008 Pamplona

Independent Auditor's Report in accordance with International Standards on Auditing on special-purpose financial statements

To the Executive Committee of
Universidad de Navarra – IESE Business School

Opinion

We have audited the accompanying special-purpose combined financial statements of the activity of 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 2019, the combined income statement for the year then ended and explanatory notes to the combined financial statements containing a summary of significant accounting policies (hereinafter the "combined financial statements"). The combined financial statements have been prepared by management of the Combined Group on the basis of the financial reporting criteria indicated in note 2 to the accompanying combined financial statements, which the entity considers to be those best suited to the purpose for which they have been prepared.

In our opinion, the combined financial statements of IESE Business School, IESE USA Inc. and IESE Business School gGmbH for the year ended 31 August 2019 have been prepared, in all material respects, in accordance with the financial reporting criteria indicated in note 2.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Combined Financial Statements* section of our report.

We are independent of the entity in accordance with the IESBA (International Ethics Standards Board for Accountants) Code of Ethics, and we comply with other ethical requirements pursuant to the IESBA Code of Ethics.

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

Emphasis of Matter. Basis of presentation and restrictions on distribution and use

We draw your attention to note 2 to the combined financial statements, which describes the basis of the accounting principles and criteria used. As indicated in note 2, 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. Consequently, the combined financial statements may not be suitable for another purpose. Our report is intended solely for the Executive Committee of the Combined Group and should not be distributed to or used by parties other than such addressees. This matter does not modify our opinion.



Other Matters

The accompanying combined 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.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation of the accompanying combined financial statements in accordance with the financial reporting criteria, and for such internal control that they determine is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is responsible for assessing the Combined Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Combined Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Combined Group to cease to continue as a going concern.



We communicate with those charged with governance of IESE Business School, IESE USA Inc. and IESE Business School gGmbH regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Auditores, S.L.


 Jorge García Costas
 29 January 2020



KPMG AUDITORES, S.L.

2020 Núm. 16/20/00028 90,00 EUR
 SELLO CORPORATIVO
 Informe de auditoría de cuentas sujeto a la normativa de auditoría de cuentas española o internacional

BALANCE SHEET

In €

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COMBINED FINANCIAL STATEMENT*

	31.08.19	31.08.18
Intangible assets	3,052,655	3,599,318
Property, plant and equipment	26,991,594	25,253,622
Non-current investment	16,878,477	15,984,055
Total non-current assets	46,922,726	44,836,995
Trade and other receivables	21,350,946	15,336,347
Current investments	130,491	197,982
Prepayments for current assets	698,764	2,878,558
Cash and cash equivalents	8,399,753	9,605,412
Total current assets	30,579,954	28,018,299
TOTAL ASSETS	77,502,680	72,855,294
Funds and reserves	25,033,525	24,350,058
Valuation adjustments	135,608	1,328,354
Grants, donations and bequests	2,654,571	3,389,110
Total net assets	27,823,704	29,067,522
Non-current provisions	3,662,687	3,404,379
Non-current payables	1,299,056	1,944,527
Total non-current liabilities	4,961,743	5,348,906
Current payables	6,137,759	4,773,508
Trade and other payables	15,314,602	14,181,219
Current accruals	23,264,872	19,484,139
Total current liabilities	44,717,233	38,438,866
TOTAL LIABILITIES AND NET ASSETS	77,502,680	72,855,294

INCOME STATEMENT

In €

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COMBINED FINANCIAL STATEMENT*

CONTINUING OPERATIONS	2018-2019	2017-2018
Income on the entity's own activity	107,865,363	106,162,774
Services rendered	105,028,119	104,488,150
Grants, donations and bequests recognised in surplus for the year	2,837,244	1,674,624
Other operating income	3,583,923	2,450,346
Non-trading and other operating income	3,583,923	2,450,346
Personnel expenses	(54,425,872)	(51,467,305)
Salaries and wages	(44,156,711)	(41,829,745)
Employee benefits expenses	(10,269,161)	(9,637,560)
Other operating expenses	(51,636,193)	(50,589,575)
External services	(51,234,282)	(50,128,005)
Tax	-	-
Losses, impairment and changes in trade provisions	(401,911)	(461,570)
Amortisation and depreciation	(6,325,800)	(6,052,592)
Grants, donations and bequests taken to surplus for the year	861,530	916,577
Overprovision	(507)	25,850
Impairment and gains on disposal of fixed assets		-
Other income / (expenses)		-
RESULTS FROM OPERATING ACTIVITIES	(77,556)	1,446,075
Finance income	385,353	69,312
Marketable securities and other financial instruments	385,353	69,312
Finance costs	(9,516)	(29,653)
Other	(9,516)	(29,653)
Exchange gains	42,745	(101,148)
Impairment and gains on disposal of financial instruments	136,526	525,767
Impairment and losses		-
Gains on disposal and other	136,526	525,767
NET FINANCE INCOME	555,108	464,278
SURPLUS BEFORE TAX	477,552	1,910,353
SURPLUS FROM CONTINUING OPERATIONS AND COMBINED SURPLUS FOR THE YEAR	477,552	1,910,353



IESE's endowment is a vital long-term investment that supports the school's mission.

ENDOWMENT

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. It is an instrument of academic excellence, which in a very competitive market helps IESE attract the best talent: professors, researchers and students.

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) 4.4 percent of the average value of the endowment during the previous three years.

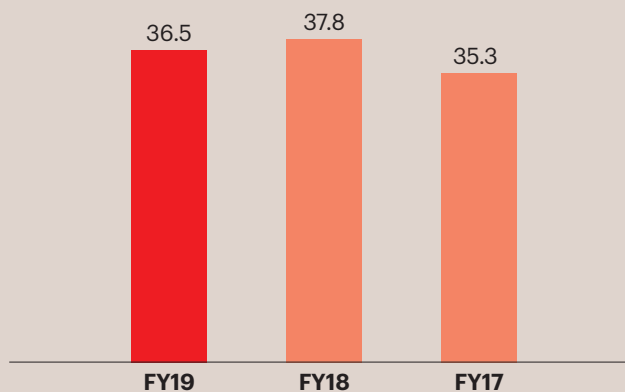
At the close of the fiscal year, the value of the Endowment was €36.5 million, distributed between IESE and the IESE International Foundation which has approximately 60% of the Endowment (€21.7 million). This represents a negative variation of -3.5% compared with the value at the beginning of the year (September 2018). The annual profitability was -6.3% (nominal return).

This result was due to the volatile behavior of equity markets, which suffered sharp declines in December 2018 as well as in May and August 2019. Investment decisions took into account the approach of the end of a cycle in terms of the value of value strategies.

During the year, the Endowment received donations worth €2.6 million. It distributed €1.5 million, some 13% more than in the previous year, which was

directed toward research costs (€934,000) and student scholarships (€574,000).

ENDOWMENT VALUE GROWTH (in million €)



SUPPORTING ORGANIZATIONS

IESE is supported by other nonprofit organizations in its 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 2018-2019 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 expansion. 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 that aids management-related research and education programs in nonprofit organizations in the U.S. and other countries. Its activities include supporting the Alumni Learning Program sessions and helping IESE establish a New York research center.

The IESE Foundation UK is a British charity registered number 11287347 that promotes research and educational projects with universities and business schools, and provides and assists in the provisions of scholarships and bursaries to IESE MBA students from the Commonwealth and other countries.

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.

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A Way to **Learn**. A Mark to **Make**. A World to **Change**.