

FINANCIAL INFORMATION

2016-2017

Updated version: 01.03.2018

EXECUTIVE SUMMARY

IESE's activities in the fiscal year (FY) ended August 31, 2017, were consistent with those of the previous year and in line with projections made at the start of the period. Revenue was €106.1 million, an increase of 2.2 percent compared with the previous year. Total expenses were €105.3 million, 1.7 percent more than in 2015-2016. The final result was a positive net income of €0.8 million and an operating margin of €7.7 million, €1.1 million greater than the €6.6 million of the year before.

Growth was moderated by the limited changes to the number and type of programs delivered, as directed by the school's strategy. Activities on the New York and Munich campuses were boosted to build IESE's presence in these important areas of influence.

This 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 gGmbH 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 MBA PROGRAMS

Despite the lack of growth in the global MBA market, IESE continued to compete to strengthen its position. Against this background, the launch this year of a fifth section of the school's flagship full-time MBA, leading to a total cohort size of 353 students, is especially worthy of note. The program also consolidated its position among the top ten in the world in rankings issued by the *Financial Times*, *The Economist* and *Bloomberg Businessweek*.

IESE MBA programs were delivered to a total of 1,288 participants. The international nature of these MBA programs was demonstrated by the presence of students of over 77 nationalities and through elective courses such as those of the full-time MBA held in New York, Sao Paulo, Shanghai and Nairobi. The Executive MBA (EMBA) was again delivered in Barcelona, Madrid and Sao Paulo.



Barcelona South Campus

MBA FULL-TIME

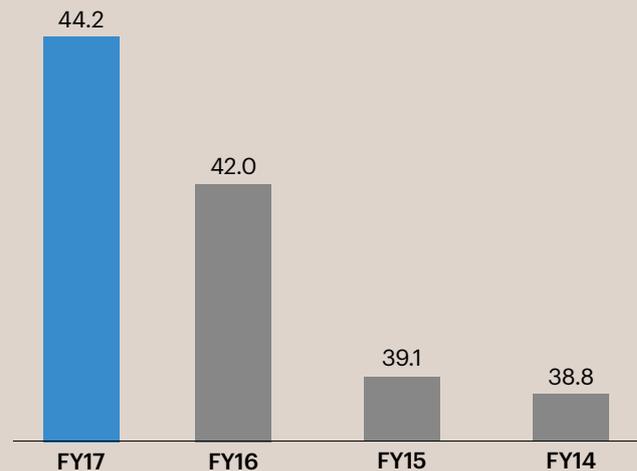
Class of	2018	2017	2016	2015
Enrollment	353	292	285	271
Fees (€)	77,500	75,400	73,900	73,200

Innovations were introduced to all of the MBA programs to increase their relevance to participants and attract new students. In the EMBA, second-year students were given access to sessions with professional career advisors, focused on helping them define their career goals. In the Global Executive MBA, further blended methodologies improved the learning experience for senior executives by helping them integrate the program with their workplace responsibilities.

Revenue from the full-time MBA program rose to €24.6 million, consolidating an annualized growth rate of 7 percent over the last four years. Revenue from the

entire MBA program portfolio – including the Executive MBA and the Global Executive MBA – grew 5 percent to reach a total of €44.2 million.

MBA PROGRAMS* REVENUE (in million €)



*MBA Programs includes MBA full-time, Executive MBA and Global Executive MBA.



EXECUTIVE EDUCATION PROGRAMS

IESE's Executive Education programs were again recognized by prestigious international publications, ranked as number one for the third time in a row by the *Financial Times*.

Custom programs, which are designed to drive change within companies, were rated especially highly. These reached companies in 19 countries across Europe, North America, South America and Asia during the year 2017. Twenty-one of the client companies were new, indicating a high level of repeat business.

Other Executive Education activities included 35 general management programs delivered to 1,145 participants and 47 Focused Programs, delivered to 1,186 participants. The latter are short, intensive experiences that tackle specific issues facing companies and industries. Thirteen Industry Meetings and 2 Public Sector Management Leadership Meetings rounded out the Executive Education portfolio activity.

During the fiscal year, more innovations in technology and teaching methodology were introduced into the programs, building on advances made in previous years. New program designs included increased online content and more leadership-orientated modules, with the goal of further improving the program portfolio's value to participants.

Total revenue from Executive Education was €51.6 million and income from custom programs in New York reached a record €1.8 million. International open programs delivered in Barcelona, Madrid, Munich, New York and Warsaw grew 5 percent compared with the previous year, with revenue of €8.1 million.

CUSTOM PROGRAMS

	FY17	FY16	FY15	FY14
Companies	70	71	65	65
Sectors	12	11	11	11
Countries	14	15	17	16

RESEARCH

Academic research continued to receive considerable external support and funding. Seventy percent of revenue was related to projects financed by national and international organizations. These included four new research projects funded by the Spanish Ministry of Economy and Competitiveness, a research grant from the Young Researchers Program of the Spanish Ministry, a Beatriu de Pinós Grant funded by the Catalan government, and four research grants awarded to the CRIHM-EIT Health Initiative.

In the last four years, five new IESE Chairs have started their research activities, bringing the total to 25. In 2016-2017, three new Chairs were created: the SEAT Innovation Chair, the Joaquín Molins Chair of Strategic Alliances and the Novartis Chair of Operational Excellence in Healthcare. Two chairs were extended – the Caixabank Chair or Corporate Social Responsibility and the Credit Andorra Chair of Markets, Organizations and Humanism – and the school maintained its 11 research centers.

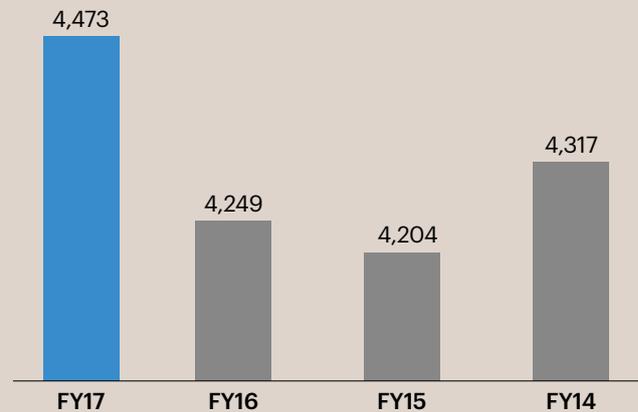
RESEARCH

	FY17	FY16	FY15	FY14
Funded Projects (K€)	1,141	1,422	1,053	1,243
Research Centers (K€)	1,260	1,642	1,689	1,680
Chairs (No.)	25	22	21	20

ALUMNI ASSOCIATION

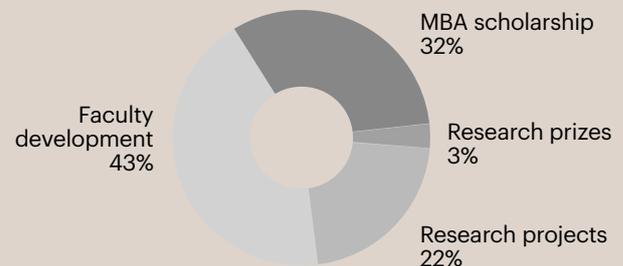
Support from IESE's 46,537 alumni remained key to the school's pursuit of its mission. Grants and donations have grown by 4 percent in the last four years.

ALUMNI ASSOCIATION REVENUE (in thousand €)



The IESE Alumni Association Executive Committee defines the criteria and objectives by which the association allocates its contribution. In 2017-2018, €930,710 will be allocated to MBA student scholarships, faculty training and research projects, as well as activities for alumni based around themes including lifelong learning, career management, and networking. To help keep the alumni community engaged with the school and informed with what is happening, with the goal of fostering their ongoing support, the Alumni Association launched a new mobile app and website this year.

ALUMNI CONTRIBUTION TO IESE



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INCOME STATEMENT (in thousand €)

	FY17	FY16	FY15	FY14
Revenue	106,121	103,831	97,145	93,659
Academic fees	96,261	94,291	88,410	84,703
Grants & contracts	1,582	1,898	1,242	1,735
Donations	4,623	4,666	4,547	4,845
Financial income & others	3,655	2,976	2,946	2,375
Expenses	105,307	103,538	96,787	93,431
Faculty & staff	50,810	48,548	47,083	46,454
Collaborators	6,004	6,179	4,799	4,041
Marketing	3,648	3,792	3,616	3,283
Technology	5,529	5,596	4,230	3,730
Catering	5,585	5,985	5,243	5,254
Travel & accommodation	5,723	6,626	6,265	5,993
Teaching material & printing	2,364	2,154	2,265	2,260
Facilities & supplies	9,366	9,597	9,613	9,230
Professional services	4,053	3,942	3,190	2,349
Depreciation	5,564	5,247	5,251	5,169
Other	6,661	5,871	5,232	5,667
Net Margin	814	293	358	228

EXPENSES

Expenses rose slightly compared with the previous year, by 1.7 percent. Cost management remained a priority in the effort to increase margins, in order to ensure that the school continues to have enough solvency to invest and innovate in teaching and research. Budgetary discipline remained a priority and was an essential condition of increasing margins.

TECHNOLOGY

Technology costs were considerable, rising to €5.5 million and maintaining the annualized 14 percent growth over the last four years. The investment was directed toward ongoing renovation of technology infrastructures and projects designed to improve the learning experience for program participants. Significant new technology projects, which received a total investment of €2.9 million, included the development of a “virtual classroom” and the launch of an online course for alumni. Another new development was the launch of a new Alumni app and website, both of which aim to increase alumni

engagement by offering features including instant networking, personalized events notifications and video content. Investments in back-office (ERP) software were made which will help drive increased efficiency in operations. Blended learning methodologies, which combine in-classroom and online activities, continued to be rolled out in programs.

TECHNOLOGY

	FY17	FY16	FY15	FY14
Capex (K€)	2,949	2,175	3,218	2,897
Opex (K€)	7,957	7,864	7,431	6,553
TOTAL (K€)	10,906	10,039	10,649	9,450

STAFF AND FACULTY

The most important fixed costs were related to personnel – these represented 48 percent of the total.

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Over 600 people of 47 nationalities currently work at IESE in teaching and non-teaching roles. Staff members represent 82 percent of the total and work in 11 different locations. During the academic year, 10 new faculty members joined the school and faculty costs grew 5 percent. At the end of the year, there were 110 full-time professors from more than 20 different countries in the school's faculty. Attracting and retaining top talent in both faculty and non-teaching staff is essential to the realization of IESE's mission. To that end, spending included competitive compensation packages plus the development of career development activities.

FACULTY

	FY17	FY16	FY15	FY14
Full-Time Professors	110	105	109	102
Part-Time Professors	65	61	61	67
Expenses* (K€)	23,941	23,410	23,277	22,455

*Including salaries for full- and part-time professors and staff, teaching support, career development, and activities costs.

FACILITIES

Among the investments made during the academic year, one of the most significant was the completion of the expansion of the Barcelona south campus by 1,600m², which cost a total of €7 million. The new space has been created to improve services for MBA and Executive MBA students and includes two classrooms, 10 workrooms and offices, and a 350-person-capacity auditorium. The IESE library has been renovated and extended to support the creation of a fifth section in the full-time MBA program. The new library, which was opened in September 2017, will provide an expanded range of services. As part of the school's ongoing "Security on Campus" project, a video surveillance system was installed on Barcelona's south campus. This comprises perimeter cameras and video-analysis cameras and permits efficient control of critical areas and traceability in situations of intrusion. In terms of environmental impact, the school invested in activities and systems to reduce its carbon footprint through its "Toward a Sustainable Campus" initiative.



There were 110 full-time professors

BALANCE SHEET

In euros

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COMBINED FINANCIAL STATEMENT*

	31.8.17	31.8.16
Intangible assets	4,970,176	5,623,818
Property, plant and equipment	24,993,349	21,491,041
Non-current investment	16,453,515	19,720,475
Total non-current assets	46,417,040	46,835,334
Trade and other receivables	17,458,818	14,149,770
Current investments	214,892	694,628
Prepayments for current assets	1,757,859	2,592,225
Cash and cash equivalents	4,245,629	2,466,624
Total current assets	23,677,198	19,903,247
TOTAL ASSETS	70,094,238	66,738,581
Funds and reserves	23,139,589	22,588,746
Valuation adjustments	1,159,416	730,072
Grants, donations and bequests	4,319,910	5,792,093
Total net assets	28,618,915	29,110,911
Non-current provisions	3,281,431	3,233,068
Non-current payables	2,066,310	913,891
Total non-current liabilities	5,347,741	4,146,959
Current payables	5,481,440	3,338,528
Trade and other payables	14,111,229	13,089,801
Current accruals	16,534,913	17,052,382
Total current liabilities	36,127,582	33,480,711
TOTAL LIABILITIES AND NET ASSETS	70,094,238	66,738,581

*Financial information is consolidated and includes IESE New York and IESE Munich, which have been audited together.

INCOME STATEMENT

In euros

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COMBINED FINANCIAL STATEMENT*

CONTINUING OPERATIONS	2016-2017	2015-2016
Income on the entity's own activity	101,836,392	98,206,065
Services rendered	100,143,697	96,064,575
Grants, donations and bequests recognised in surplus for the year	1,692,695	2,141,490
Other operating income	1,946,025	2,297,035
Non-trading and other operating income	1,946,025	2,297,035
Personnel expenses	(50,620,070)	(48,702,176)
Salaries and wages	(41,237,173)	(39,224,622)
Employee benefits expenses	(9,382,897)	(9,477,554)
Other operating expenses	(48,826,499)	(48,153,228)
External services	(48,446,714)	(47,789,950)
Tax	-	-
Losses, impairment and changes in trade provisions	(379,785)	(363,278)
Amortisation and depreciation	(5,564,366)	(5,246,995)
Grants, donations and bequests taken to surplus for the year	969,855	1,046,629
Overprovision	-	-
Impairment and gains on disposal of fixed assets	-	14,792
Other income / (expenses)	(248,633)	117,308
RESULTS FROM OPERATING ACTIVITIES	(507,296)	(420,570)
Finance income	294,755	243,171
Marketable securities and other financial instruments	294,755	243,171
Finance costs	(47,276)	(36,164)
Other	(47,276)	(36,164)
Exchange gains	113,248	41,792
Impairment and gains on disposal of financial instruments	960,565	464,770
Impairment and losses	-	-
Gains on disposal and other	-	464,770
NET FINANCE INCOME	1,321,292	713,569
SURPLUS BEFORE TAX	813,996	292,999
SURPLUS FROM CONTINUING OPERATIONS AND COMBINED SURPLUS FOR THE YEAR	813,995	292,992

*Financial information is consolidated and includes IESE New York and IESE Munich, which have been audited together.

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).

Nevertheless, to have a deeper and more lasting impact on people, companies and society, IESE – like other business schools and academic institutions – needs the support of others. This support focuses on three main areas:

- **Scholarships:** the school offers scholarships and other financial aid for students with outstanding academic credentials and limited financial means, especially those from developing countries.
- **Research:** IESE's research is partially financed through public funds available to research groups. However, in many cases this public funding is not sufficient and IESE has to rely on other sources of financing.
- **Campus development:** IESE is also committed to campus projects that require considerable investment. These allow the expansion of school activities and a consequently greater educational impact on program participants.

IESE is a nonprofit institution that relies on the generous help of people, including alumni, and 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 2016-2017, pledges amounted to €10.97 million.

This includes the amount donated by the Alumni Association to student scholarships, faculty training and research projects, which this year rose to €930,710. 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. These economic resources 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.

SCHOLARSHIPS

One of the priorities of corporate development is to fund student grants and scholarships. The overall objective is to attract the best candidates, promote diversity among participants and permit students who come from developing countries or who do not have access to financial resources to gain access to first-class business education.

With the help of several institutions, IESE committed €3.7 million in 2016-2017 to the scholarships program. As well as individual students, there are other entities that benefit from this scholarship program. These 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 fiscal year, €644,348 in scholarships was awarded to 36 PhD students from 22 countries, and €269,480 in scholarships to students of other academic programs. 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 EY UK, which donated €135,800 in scholarships. These were awarded to students from Angola to attend Executive Education Programs. The Alumni Association donated €210,000 toward MBA grants and allocated €327,776 to faculty development.

RESEARCH

Research is one of the areas to which the contributions that IESE receives are specifically allocated. The school committed €13.5 million to this activity, including part of faculty salaries.

Part of the school's academic research activity is based around its Chairs. These academic research groups are headed by their holder, whose purpose is to push the limits of knowledge in a specific field, then share the results of that research. The Chairs are usually funded by and named after individuals or companies. Together with Research Centers, IESE Chairs received donations totaling €2.2 million.

CAMPUS DEVELOPMENT

IESE is a worldwide benchmark for excellence in teaching and research. Its reputation is backed by the prestige of the academic activity of its international faculty, whose research is published and shared in academic congresses, business forums and the media. To maintain and improve the level of this prestigious academic research, IESE must keep its facilities in perfect condition and expand the size of its buildings to facilitate the growth of its activities.

Throughout 2016-2017, IESE continued to invest to improve and adapt its facilities. 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 more than €10 million across a three-year plan (2015-2018), the project represents a 25 percent expansion of the total area of the southern IESE campus in Barcelona. This work has included the renovation of the old B-building and the construction



Madrid Campus
- new building

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of a new one connected to it, with an auditorium for 350 people, two classrooms and numerous offices and work rooms. The new building was inaugurated in January 2017.

The project also includes a second phase, currently being implemented, at Avda Pearson 18 in Barcelona. This includes the construction of a new facility for the doctoral program, with classrooms and workstations for 60 PhD students. The new building, which is expected to open in 2017-2018, will also house the Research Division and provide services for faculty members to carry out their academic work.

The campus-expansion project in Barcelona follows on from the ambitious campus developments in New York and Sao Paulo in recent years, the latter in partnership with Brazil's ISE Business School. In 2015-2016, a new IESE campus opened in Munich, based in an elegant building in a central residential area of the Bavarian capital.

The investment plan for facilities will culminate in the expansion of IESE's Madrid campus, where construction of a new building is expected to begin soon. The new building, which will house four classrooms, 16 work rooms and offices for 60 people, will represent an important step forward for research on the campus. A new auditorium, with capacity for more than 500 people, will support the activities of the Alumni Association in Madrid.

To help finance these projects, IESE in partnership with Fundación IESE, is calling on the support of alumni and sponsoring companies. In 2016-2017, more than €5.2 million was raised for campus projects.

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 2016-2017, the school invested €4.0 million in such improvements.

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.

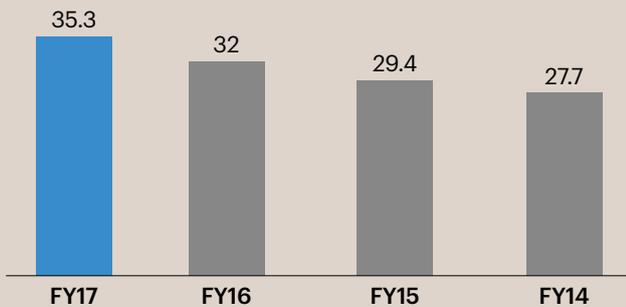
It is managed so that future generations have at least the same performance capacity (intergenerational equity). To this end, part of the profits are reinvested in the fund itself, so that purchasing power is not lost due to the effects of inflation. In this way, the impact of a donation is permanent, allowing IESE to undertake more ambitious and long-term projects.

With the goal of helping to determine the best way to make these investment decisions, the IESE Council formed the Investment Advisory Committee. This comprises alumni who are professionals in the sector plus some IESE faculty members. In carrying out its duties, the committee is guided by the directions approved by the council in accordance with the Endowment Investment Policy. This policy establishes as an investment goal the maintenance of a balance between retaining the purchasing power of the fund, financing each year's activities in a stable manner with a percentage of the fund, and maximizing the total long-term returns of the endowment.

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

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ENDOWMENT VALUE GROWTH (in million €)



At the close of the fiscal year that ended on August 31, 2017, the value of the IESE endowment was €35.3 million, representing an increase of 10.3 percent over the value at the beginning of the year. This increase in net worth, which amounts to €3.3 million, is the result of the combined effect of three flows:

- **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 2016-2017, the increase in the endowment through new donations was over €1.7 million.
- **Expenditure:** in 2016-2017 the endowment distributed a total of €1.2 million, of which €402,000 was spent on doctoral program scholarships, €125,000 on MBA grants, €571,000 on financing IESE Chairs, and the remaining €112,000 on financing other research projects.
- **Financial return:** nominal return on financial investments during 2016-2017 was 8.7 percent (€2.8 million), obtaining an average nominal return (composite) of 6.8 percent during the last three years and 7.2 percent during the last five years.

This average return over the last three years (6.8 percent) exceeds the three benchmarks set by the investment policy: a passively managed portfolio comprising 60 percent variable income and 40 percent fixed income, which achieved a return of 4.4 percent over the same period; the approved asset allocation's own benchmark, which achieved 3.5 percent; and the collection of the American university endowments of

similar size, which achieved an average of 3.8 percent return over the last three years.

For a complete report on investment activity, see the Endowment Management Report on the web page of the IESE International Foundation (www.fiiese.org).

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 2016-2017 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 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.

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 develop.



www.iese.edu

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

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