

Financial Statements

2007-2008

London experience.
World impact.

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A Graduate School of the University of London

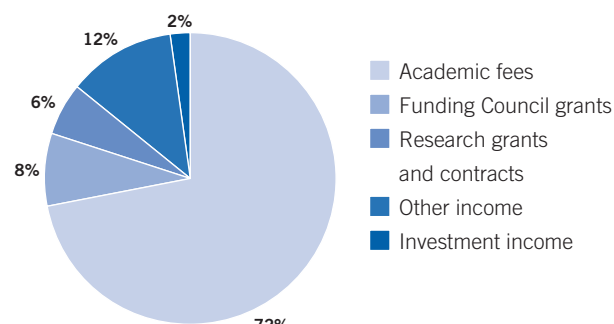
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Summary of financial highlights

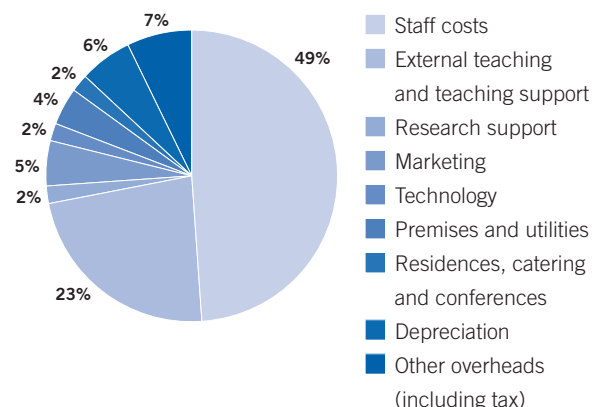
	2008	2007 (as restated)
	£'000	£'000
INCOME		
Academic fees	67,424	60,490
Funding Council grants	7,597	7,298
Research grants and contracts	5,084	5,283
Other income (including share of joint venture)	11,441	10,982
Investment income	1,552	978
Total income	93,098	85,031

INCOME 2008



EXPENDITURE		
Staff costs	45,556	43,822
Other costs		
External teaching and teaching support	20,778	19,490
Research support	1,712	1,242
Marketing	4,423	4,363
Technology	1,796	1,823
Premises and utilities	4,100	3,925
Residences, catering and conferences	1,548	1,431
Depreciation	5,261	4,691
Other overheads (including tax)	6,966	7,106
Total expenditure	92,140	87,893
Surplus/(deficit) on operations	958	(2,862)

EXPENDITURE 2008



BALANCE SHEET		
Tangible assets	73,929	71,794
Investments	29,920	32,112
Current assets	21,187	16,792
Current liabilities	(43,996)	(37,392)
Long-term liabilities and provisions	(5,663)	(2,917)
Net assets	75,377	80,389

Represented by		
Specific and permanent endowments	11,881	11,002
General reserves	12,178	14,915
Pension reserve	(5,663)	(2,917)
Revaluation reserve	32,753	32,753
Deferred capital grants	24,228	24,636
	75,377	80,389

OTHER KEY STATISTICS

Net cash outflow for the year	(546)	(1,311)
Capital expenditure during the year	7,396	7,688

Dean's statement

London Business School continues to enjoy a position of considerable strength. Our purpose is to develop breakthrough insights and successful leaders that have a positive impact on business around the world. We are superbly positioned to do that with outstanding faculty and students, from all over the globe, centred in London, increasingly the world's capital.

The School's leadership is focused on five strategic imperatives: reputation and relationships; faculty; students and programmes; space; and money. We have made progress on all five this year.

The *Financial Times* has just rated our EMBA Global programme first in the world. Eminent leaders and CEOs beat a path to our door. Even in these difficult times, top employers still come here to hire our wonderful students.

This year our faculty has reached its largest ever number of 161. Thanks to the generosity of our donors, we began to address our lack of faculty chairs. We established nine Term Chairs – a record – and two School Fellowships.

We have made major developments in our programmes. Firstly, we welcomed our inaugural Dubai-London Executive MBA class. Demand is so strong that an additional stream of students will begin in 2009. Secondly, we launched EMBA-Global Asia in collaboration with Columbia and Hong Kong business schools. We have also launched a new, pre-experience Masters in Management degree.

With such growth, we require more and better space. We purchased 3,000 square feet of office space – releasing critical teaching and learning space on campus. We will need even more. To reduce cost, financial risk and disruption, we are now employing a modular approach to campus development.

This year, our generous donors supported the School with a record £8.9 million in gifts and pledges. We are deeply grateful.

Thank you for your support of this great School.



Robin Buchanan

Dean

London Business School

Chairman's statement

The academic year 2007-08 was successful on many levels. Despite the fact that the market is in a downturn, we enjoyed a continuing success in our degree and Executive Education programmes. We had many generous donors, to whom we are very grateful, enabling the School to maintain progress and the highest standards.

In the year, we were especially pleased to see our graduates meet such success in the job market, which after all is the *raison d'être* for our efforts. Within three months of graduating, 97% of our MBAs and 96% of our Masters in Finance graduates had received at least one job offer. Given the market, we are keeping close watch on our current students to ensure that they find equally good opportunities from an increasingly wide range of industries and across many countries. We are confident that by working together with our students, they will be able to position themselves, even in adverse conditions.

It is particularly pleasing to see Robin Buchanan settled so well in such a successful first year as Dean. Of special note is the progress Robin has made in providing support to our faculty, who are among the most worked of their peers. This has involved the awarding of nine Term Chairs and two Fellowships this year.

London Business School continued its placement at the top of the league tables. I am proud of the School's achievements this past year. And I am especially fortunate to be Chairman of the Governing Body. My fellow governors and I look forward to another year of achievement for this enterprising and great institution.



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 Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998. Its purpose is to help the reader of the financial statements understand how these principles have been applied.

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 and academic persons, appointed under the statutes of the School, the majority of whom are non-executive. The role of Chairman of Governing Body is separated from the role of the School's chief executive, the Dean. The role of Treasurer is undertaken by the Associate Dean, Operations. The matters specifically referred to the Governing Body for decision are set out in the statutes of the School. As is the custom, and under the Financial Memorandum with the Higher Education Funding Council for England ("HEFCE"), the Governing Body holds itself responsible for the ongoing strategic direction of the School. It approves major developments and receives regular reports from executive officers on the day-to-day operations of the School's business and its associated companies.

The 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 Chairmen in 2004. 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 were not published in the School's annual report.

The Governing Body meets four times a year and has

several committees, including an Audit Committee, a Finance Committee, a Remuneration Committee and a Nominations 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 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 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 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 to review and oversee the School's investment portfolio and strategy.

The Nominations Committee considers nominations for vacancies in the Governing Body's membership.

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 2008 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 Committee also receive regular reports from the internal audit services including recommendations for improvement.

The Audit 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 Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At the June 2008 meeting an assessment for the year ended 31 July 2008 was carried out upon receipt of documentation from senior management and the Audit Committee. At the November 2008 meeting, further assurance on risk and control was given to the Governing Body by senior management and the Audit Committee to enable the annual assessment for the year ended 31 July 2008 to take place. This assessment took into account events since 31 July 2008.

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 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 2007-2008 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 Committee.

The Audit 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
13 November 2008

Treasurer's report

Scope of the financial statements

The School is a company incorporated by Royal Charter on 8 July 1986. It was given charity status by the Exempt Charity Order 1996 in force from 1 August 1996.

The consolidated financial statements are prepared in accordance with applicable accounting standards and comprise the consolidated results of London Business School and its subsidiary company London Business School Trading Company Limited, and 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'). 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, facilities 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.

The results of the Centre for Scientific Enterprise Limited ('CSEL'), a joint venture company of the School and University College London ('UCL'), have been consolidated within these financial statements. London Technology Network ("LTN") was also a joint venture company of the School and UCL but ceased to be a member of the group with effect from 1 April 2008. Its results for the eight months to 31 March 2008 have been consolidated within these financial statements.

The results of the Centre for Creative Business Limited ('CCB'), a joint venture company of the School and University of the Arts London ("UAL") and the Global Entrepreneurship Research Association ('GERA'), a joint venture company of the School and Babson College USA, have also been consolidated within these financial statements.

CSEL is funded by a grant from the Office of Science and Technology and aims to act as a commissioning and funding body to promote the transfer of science and technology ideas into commercial products and services. This includes establishing new academic courses, training academic staff, and commissioning specific teaching materials. LTN is also funded by a government grant. Its

aim is to improve and encourage interaction between industry and the regional academic research base.

The CCB is government funded and its aim is to inject business acumen and management skills into the UK's creative industries. With effect from 1 August 2008 the assets of CCB are to be transferred to UAL and CCB will be dissolved. 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 2008 is as follows:

	2008 £'000	2007 (as restated) £'000
Income	93,098	85,031
Expenditure	(92,140)	(87,893)
Surplus/(deficit) on operations	958	(2,862)
Pension fund actuarial (loss)/gain	(2,854)	1,961
Revaluation of investments	(2,708)	1,866
Total recognised (losses)/gains for the year	(4,604)	965

Operating results

The School continues to be financially sound, targeting breakeven or small operating surpluses each year.

Income grew in the year by over £8 million or 9%. Academic fees grew by 11%. This reflected significant revenue growth from degree programmes of over £3.5 million or 14%, largely from the Dubai-London Executive MBA and Sloan Fellowship programmes; and £3.5 million from Executive Education with both open and custom programmes delivering higher revenues as a result of increased demand.

Staff and faculty costs continue to rise as we invest in recruitment and retention but only by 4%. Similarly overheads (with the exception of bought in teaching) only increased by 2% with improved procurement and value

for money initiatives. Bought in teaching increased by £1.1 million or 19% as a result of both increased rates and lower salaried costs, also reflecting the enhanced range of courses we offer.

Revalued under FRS 17 the pension fund liability has increased to £5.7 million at 31 July 2008. The change in assumptions lead to this £2.8 million increase.

Unusually for a top ten business school, we still have no major endowment but continue to invest in its growth. Fundraising generated £3.3 million in cash receipts this year. Of this, £0.6 million came from corporate partners and sponsorship, £0.3 million in unrestricted donations and £2.4 million in restricted donations to add to our endowment.

Reserves

Overall reserves reduced from £55.8 million to £51.1 million reflecting the movement in the pension liability reserve of £2.8 million. General reserves also reduced by £2.7 million. Restricted reserves however increased by £0.9 million.

Capital projects

The School continues to require investment in its estate and facilities. During the year to 31 July 2008 the School spent £7.4 million against a planned spend of £8.7 million on capital projects. Student and faculty numbers are increasing. The School's physical capacity needs to be continually expanded and the quality improved to meet the demand and the expectations of our wider community.

Specific projects included completing the upgrade of the Executive Education bedrooms (£1.3 million); adding research facilities (£0.7 million funded by capital grants of £0.6 million); the purchase of a new building (£2.3 million); investment in major campus improvements (£0.9 million); in general improvement of the estate (£1.4 million funded by capital grants of £0.7 million); and in information technology (£0.8 million). This resulted in net capital expenditure of £6.1 million in the year. Depreciation of £5.3 million was charged resulting in a year on year growth in fixed assets of £2.1 million.

Investment portfolio

The School's investment portfolio is managed by an external fund manager. Investment income totalling

£1.5 million is included in the income and expenditure account for the year, of which £0.5 million resulted from the sale of investments. This reflected a re-alignment of the portfolio which occurred during the year and which aimed to reduce exposure to equity risk.

The market value of the portfolio at the year end was £30 million compared to £32 million at last year end. The performance of the portfolio is monitored by the Investment Committee. The net return on funds during the year was in line with market benchmarks.

An unrealised loss of £2.7 million upon revaluation of the investment portfolio has been included in the total recognised losses for the year in 2008. This reflects the global downturn at the year end and compares to an unrealised gain of £1.9 million in 2007.

The future

It continues to be the vision of London Business School to be the pre-eminent global business school. Increases in academic fees in 2008 are planned to continue into 2009 as we launch a second stream of the Dubai-London Executive MBA in January 2009; and an inaugural EMBA-Global Asia in May 2009. We also continue to grow our Executive Education open portfolio by both continuing to fill the classes; and by launching new 2 Day Executive Workouts. Custom programmes also continue to grow in response to increased demand from our corporate clients.

We hope to continue to manage our operating costs efficiently and effectively in the year ahead but recognise the need to continue to invest in faculty, staff, new programmes and space.

Investments in fundraising will continue as we strengthen relationships with alumni, global business partners and other similar institutions to build global partnerships. Our endowment is key to greater success and we will continue to reach out to our community to build this.

Catherine Webster
Treasurer
13 November 2008

Independent auditor's report to the Governing Body of London Business School

We have audited the financial statements of London Business School for the year ended 31 July 2008 which comprise the consolidated income and expenditure account and the balance sheets for the group and the School, the consolidated cashflow statement, the consolidated statement of recognised gains and losses, the consolidated note of historical cost gains and losses, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Governing Body and auditors

As described in the Statement of the Governing Body's responsibilities the School's Governing Body is responsible for preparing the Governors' Report (corporate governance statement, statement of the Governing Body's responsibilities and the Treasurer's report) and the financial statements in accordance with applicable law, United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice "Accounting for Further and Higher Education".

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and the Audit Code of Practice issued by the Higher Education Funding Council for England.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice "Accounting for Further and Higher Education". We also report to you if, in our opinion, the information given in the Governors' Report is not consistent with the financial statements, the School has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the remuneration of the Governing Body or other transactions is not disclosed.

We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the School have been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the School's Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England.

We read the other information contained in this document and consider whether it is consistent with the audited financial statements. The other information comprises only the summary of financial highlights and the Dean's and Chairman's Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared in pursuant of the requirements of the School's Statutes and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the School's Statutes or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the School in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the School and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the group as at 31 July 2008 and of its surplus of income over expenditure for the year then ended;
- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the School as at 31 July 2008;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice “Accounting for Further and Higher Education”;
- income from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the School have been applied for the purposes for which they were received; and
- income has been applied in accordance with the School’s Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
Epsom
Surrey
17 November 2008

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 “Accounting for Further and Higher Education”.

The prior year figures have been restated as a result of implementing the SORP requirements to account for the results of joint ventures under individual income and expenditure and balance sheet headings, and to report income received to support infrastructure, previously included within restricted reserves, under deferred capital grants.

The combined impact of reclassifying income received to support infrastructure from restricted reserves to deferred capital grants and change in accounting treatment when consolidating the results of the joint venture CCB, amounts to £0.9 million and has been disclosed as a prior year adjustment within the statement of recognised gains and losses.

(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. Acquisitions are accounted for from the date of acquisition.

The consolidated financial statements also include the results of four joint ventures, the Centre for Scientific Enterprises Limited (“CSEL”), the London Technology Network (“LTN”), the Centre for Creative Business (“CCB”) and Global Entrepreneurship Research Association (“GERA”), using the gross equity method of accounting.

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 financial statements include 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.

Research grants are credited to the research grants and contracts account for the relevant project. Any balances on such projects comprising unexpended amounts, or expenditure awaiting reimbursement, are included in debtors or creditors as appropriate.

(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 at the year end are included as payments in advance.

(e) 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.

(f) Pensions

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

The two principal pension schemes for the School's staff are the University Superannuation Scheme (USS) and the London Business School Staff Pension Scheme (SPS). The SPS closed to new members from 1 August 2004. Both are defined benefit schemes and are held in trustee-administered funds. Employees in these schemes are contracted out of State Second Pension (S2P).

As the School is unable to identify its share of the underlying assets and liabilities of the USS scheme on a consistent and reasonable basis, the exemption under FRS 17 "Retirement Benefits" has been applied. The contributions to this scheme are accounted for on the same basis as a defined contribution scheme.

The difference between the fair value of the assets held in the School's defined benefit pension scheme and the scheme's liabilities 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 defined benefit pension scheme 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 FRS 17 "Retirement Benefits".

Defined contribution scheme costs are charged to the income and expenditure account as they are incurred.

(g) 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 year's depreciation is charged in the year 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.

(h) Maintenance of premises

The School has a five year rolling maintenance plan which forms the basis of the ongoing maintenance of the premises and this is reviewed on an annual basis. The cost of routine corrective maintenance is charged to the income and expenditure account as incurred.

(i) Investments

Endowment asset investments and other fixed asset investments are included in the balance sheet at market value.

(j) Stock

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

(k) Taxation status

The School is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and is a charity within the meaning of Section 506(1) of the Income and Corporation Taxes Act 1988. Accordingly, the School is exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 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 not eligible for a similar exemption in respect of Value Added Tax (VAT) and operates a partial recovery scheme. The cost of non-recoverable VAT is reflected in the appropriate expenditure lines.

With the exception of London Business School Anniversary Trust (an exempt charity) subsidiary companies are liable to corporation tax and VAT in the same way as any commercial organisation.

(l) Leases

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

(m) Provisions

Provision is made, where material, for the present value of future liabilities and losses which have occurred during the financial year and up to the date on which the financial statements are approved by the Governing Body. The recognition of a provision is in accordance with FRS 12 "Provisions, Contingent Liabilities and Contingent Assets".

(n) Funds

The following types of funds are maintained:

- Endowments: these are recorded as either specific 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. Specific 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 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 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.

(o) Going concern

The financial statements are prepared on the going concern basis.

Consolidated income and expenditure account

for the year ended 31 July 2008

	Notes	2008	2008 Share of joint ventures	2008	2007 (as restated)
		£'000	£'000	£'000	£'000
INCOME					
Academic fees	1	67,424	–	67,424	60,490
Funding Council grants	2	7,240	357	7,597	7,298
Research grants and contracts		5,084	–	5,084	5,283
Other income	3	10,374	1,067	11,441	10,982
Investment income	4	1,506	46	1,552	978
Total income		<u>91,628</u>	<u>1,470</u>	<u>93,098</u>	<u>85,031</u>
EXPENDITURE					
Staff costs	6	45,035	521	45,556	43,822
Other operating expenses	7	40,332	971	41,303	39,357
Depreciation	10	5,261	–	5,261	4,691
Total expenditure		<u>90,628</u>	<u>1,492</u>	<u>92,120</u>	<u>87,870</u>
Surplus / (deficit) on operations before tax		1,000	(22)	978	(2,839)
Taxation	8	(20)	–	(20)	(23)
Surplus / (deficit) on operations after tax	9	<u>980</u>	<u>(22)</u>	<u>958</u>	<u>(2,862)</u>

The consolidated income and expenditure of the School and its subsidiaries and quasi-subsidiaries relate wholly to continuing operations.

The notes on pages 20-34 form part of these financial statements.

Consolidated statement of recognised gains and losses and note of historical cost gains and losses

for the year ended 31 July 2008

	Notes	2008 £'000	2007 (as restated) £'000
CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES			
Surplus / (deficit) on operations after tax		958	(2,862)
Pension fund actuarial (loss) / gain	19	(2,854)	1,961
(Decrease) / increase following the revaluation of investments		(2,708)	1,866
Total recognised (losses) / gains for the year		(4,604)	965
Prior year adjustment		(927)	—
Total (losses) and gains since last financial statements		(5,531)	965

The nature and impact of the prior year adjustment is disclosed within the accounting policies.

NOTE OF HISTORICAL COST GAINS AND LOSSES

Reported surplus / (deficit) on operations before tax	978	(2,839)
Difference between a historical cost depreciation charge and the actual depreciation charge for the year, calculated on the revalued amount	373	373
Historical cost surplus / (deficit) on operations before tax	1,351	(2,466)
Taxation	(20)	(23)
Historical cost surplus / (deficit) on operations after tax	1,331	(2,489)

Balance sheets

as at 31 July 2008

	Notes	2008	Consolidated 2008 Share of joint ventures	2008 Total	2007 (as restated)	London Business School 2008	2007
		£'000	£'000	£'000	£'000	£'000	£'000
FIXED ASSETS							
Tangible assets	10	73,929	–	73,929	71,794	73,890	71,754
Endowment investments	11	11,881	–	11,881	11,002	–	–
Other investments	11	18,039	–	18,039	21,110	91	91
		<u>103,849</u>	<u>–</u>	<u>103,849</u>	<u>103,906</u>	<u>73,981</u>	<u>71,845</u>
CURRENT ASSETS							
Debtors	12	19,180	72	19,252	14,659	25,363	21,844
Short term deposits		–	654	654	1,077	–	226
Cash at bank and in hand		<u>1,144</u>	<u>137</u>	<u>1,281</u>	<u>1,056</u>	<u>345</u>	<u>91</u>
		<u>20,324</u>	<u>863</u>	<u>21,187</u>	<u>16,792</u>	<u>25,708</u>	<u>22,161</u>
Creditors: amounts falling due within one year	13	<u>(43,238)</u>	<u>(758)</u>	<u>(43,996)</u>	<u>(37,392)</u>	<u>(43,660)</u>	<u>(37,769)</u>
Net current liabilities		<u>(22,914)</u>	<u>105</u>	<u>(22,809)</u>	<u>(20,600)</u>	<u>(17,952)</u>	<u>(15,608)</u>
Total assets less current liabilities		<u>80,935</u>	<u>105</u>	<u>81,040</u>	<u>83,306</u>	<u>56,029</u>	<u>56,237</u>
Net assets excluding pension liability		<u>80,935</u>	<u>105</u>	<u>81,040</u>	<u>83,306</u>	<u>56,029</u>	<u>56,237</u>
Net pension liability	19	<u>(5,663)</u>	<u>–</u>	<u>(5,663)</u>	<u>(2,917)</u>	<u>(5,663)</u>	<u>(2,917)</u>
Net assets		<u>75,272</u>	<u>105</u>	<u>75,377</u>	<u>80,389</u>	<u>50,366</u>	<u>53,320</u>
ENDOWMENTS							
Specific	14	3,015	–	3,015	3,120	–	–
Permanent	14	8,866	–	8,866	7,882	–	–
Reserves							
General		12,073	105	12,178	14,915	48	(152)
Pension	19	<u>(5,663)</u>	<u>–</u>	<u>(5,663)</u>	<u>(2,917)</u>	<u>(5,663)</u>	<u>(2,917)</u>
Revaluation		<u>32,753</u>	<u>–</u>	<u>32,753</u>	<u>32,753</u>	<u>32,753</u>	<u>32,753</u>
Total	15	<u>51,044</u>	<u>105</u>	<u>51,149</u>	<u>55,753</u>	<u>27,138</u>	<u>29,684</u>
Deferred capital grants	16	<u>24,228</u>	<u>–</u>	<u>24,228</u>	<u>24,636</u>	<u>23,228</u>	<u>23,636</u>
Total		<u>75,272</u>	<u>105</u>	<u>75,377</u>	<u>80,389</u>	<u>50,366</u>	<u>53,320</u>

Approved by the Governing Body and authorised for issue on 13 November 2008.

Sir John Ritblat
Chairman

The Hon Apurv Bagri
Deputy Chairman

Consolidated cashflow statement

for the year ended 31 July 2008

	Notes	2008 £'000	2007 (as restated) £'000
Cash inflow from operating activities	A	4,043	2,692
Returns on investments and servicing of finance			
Interest received		1,022	977
Net cash inflow from returns on investments and servicing of finance		5,065	3,669
Taxation		–	(12)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(7,396)	(7,688)
Purchase of long term investments		–	(750)
Cash movement on investments		14	29
Deferred capital grants received		1,348	2,773
Net cash outflow from capital expenditure and financial investment		(6,034)	(5,636)
Management of liquid resources			
Withdrawal of deposits		423	668
Decrease in cash in the year		(546)	(1,311)
RECONCILIATION OF NET CASHFLOW TO INVESTMENT IN NET FUNDS			
Decrease in cash in the year		(546)	(1,311)
Cash outflow from liquid resources		(423)	(668)
Movement in net funds in the year		(969)	(1,979)
Net funds at 1 August		1,399	3,378
Net funds at 31 July	B	430	1,399

A. Reconciliation of operating surplus/(deficit) to net cashflow from operating activities

	2008	2007
	£'000	(as restated) £'000
Surplus / (deficit) on operations before tax	978	(2,839)
Depreciation	5,261	4,691
Deferred capital grants released	(1,756)	(1,601)
Pension contribution less current service cost	(209)	(112)
Increase in debtors	(4,593)	(1,565)
Increase in creditors	5,833	4,928
Interest receivable	(1,022)	(977)
Interest payable	101	178
Gain on sale of investments	(530)	–
Non cash movement on taxation	(20)	(11)
Net cash inflow from operating activities	4,043	2,692

B. Change in net funds

	At 1 August 2007 £'000	Cashflow £'000	At 31 July 2008 £'000
Cash at bank and in hand	1,056	225	1,281
Overdraft	(734)	(771)	(1,505)
	322	(546)	(224)
Short term deposits	1,077	(423)	654
Net funds	1,399	(969)	430

Notes to the financial statements

31 July 2008

1 Academic fees

	2008 £'000	2007 £'000
MBA	14,400	14,336
Sloan Fellowship	2,281	1,798
Executive MBA	8,548	6,255
EMBA-Global	2,254	2,378
Finance Programmes	9,957	9,322
PhD Programme	843	766
Executive Education Open Programmes	13,042	11,848
Executive Education Custom Programmes	16,099	13,787
	<u>67,424</u>	<u>60,490</u>

2 Funding Council grants

	2008 £'000	2007 £'000
Mainstream teaching funds	754	614
Mainstream research funds	4,720	4,597
Rewarding and developing staff in higher education	–	119
Higher Education Innovation Fund	766	766
WP Basic grant	10	10
Quality enhancement	26	26
Released from deferred capital grants (Note 16)		
Buildings	416	417
Equipment	905	749
	<u>7,597</u>	<u>7,298</u>

3 Other income

	2008 £'000	2007 (as restated) £'000
Released from deferred capital grants (Note 16)	435	435
Residences, catering and conferences	2,916	2,674
Other general income	4,752	4,631
Donations	3,338	3,242
	<u>11,441</u>	<u>10,982</u>

4 Investment income

	2008	2007 (as restated)
	£'000	£'000
Gain on sale of investments	530	–
Interest receivable	1,022	978
	<u>1,552</u>	<u>978</u>

5 Governors' remuneration

The governors of the School do not receive any remuneration for their services as governors. 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

	2008	2007 (as restated)
	£'000	£'000
Wages and salaries	39,199	37,807
Social security costs	3,469	3,185
Other pension costs	3,097	2,942
SPS pension contribution less current service cost	(209)	(112)
	<u>45,556</u>	<u>43,822</u>
Emoluments of the Dean	<u>364</u>	<u>307</u>
Pension costs of the Dean	<u>46</u>	<u>20</u>

Notes to the financial statements *continued*

31 July 2008

6 Staff costs *continued*

	2008 Numbers	2007 (as restated) Numbers
Average staff numbers by major category		
Academic including research	105	108
Other	563	536
	<hr/> 668	<hr/> 644
Earnings of higher paid staff (excluding the Dean)		
	2008 Numbers	2007 Numbers
£100,000 - £109,999	1	5
£110,000 - £119,999	8	13
£120,000 - £129,999	9	14
£130,000 - £139,999	16	6
£140,000 - £149,999	9	5
£150,000 - £159,999	11	6
£160,000 - £169,999	5	11
£170,000 - £179,999	3	2
£180,000 - £189,999	2	2
£190,000 - £199,999	2	3
£200,000 - £209,999	3	9
£210,000 - £219,999	3	6
£220,000 - £229,999	5	3
£230,000 - £239,999	–	3
£240,000 - £249,999	7	2
£260,000 - £269,999	1	2
£270,000 - £279,999	–	1
£280,000 - £289,999	2	3
£290,000 - £299,999	1	1
£300,000 - £309,999	–	2
£310,000 - £319,999	1	–
£320,000 - £329,999	2	–
£340,000 - £349,999	1	–
£360,000 - £369,999	1	–
£380,000 - £389,999	1	–
£390,000 - £399,999	1	–
£400,000 - £409,999	1	–
£420,000 - £439,999	–	1
£440,000 - £449,999	1	–
£450,000 - £459,999	–	1
£460,000 - £469,999	1	–

Included within the above are all amounts paid including salaries, pensions and payments by a quasi-subsidiary, the Centre for Management Development Company Limited.

7 Other operating expenses

	2008	2007 (as restated)
	£'000	£'000
External teaching	7,993	8,047
Teaching support	5,849	5,622
Bought in teaching	6,936	5,821
Research support	1,712	1,242
Marketing	4,423	4,363
Technology	1,796	1,823
Premises and utilities	4,100	3,925
Residences, catering and conferences	1,548	1,431
Other overheads	6,845	6,905
Interest payable	101	178
	<u>41,303</u>	<u>39,357</u>

8 Taxation

	2008	2007
	£'000	£'000
Current year tax charge	<u>20</u>	<u>23</u>
	<u>20</u>	<u>23</u>

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2007: 30%).

The differences are explained below:

	2008	2007 (as restated)
	£'000	£'000
Surplus / (deficit) on operations before tax	<u>978</u>	<u>(2,839)</u>
Expected tax charge at UK corporation tax of 30%	293	(852)
Effects of:		
Surplus / (deficit) not subject to UK corporation tax	(293)	852
Permanent accounting differences	<u>20</u>	<u>23</u>
	<u>20</u>	<u>23</u>

Notes to the financial statements *continued*

31 July 2008

9 Surplus / (deficit) on operations after tax

The surplus / (deficit) on operations after tax is stated after charging:

	2008	2007 (as restated)
	£'000	£'000
Depreciation of tangible fixed assets	5,261	4,691
Operating leases for plant and machinery	324	156
Operating leases for other assets	562	555
Auditor's remuneration:		
Group audit fee	96	90
Group taxation services fees	3	6
Group other fees	16	10

Included in the group audit fee is an amount of £60,000 (2007: £54,000) in respect of London Business School.

10 Tangible assets

CONSOLIDATED

	Land and Buildings		Assets in course of construction	Facility improve- ments	Furniture and equipment	Total
	Freehold	Long leasehold				
	£'000	£'000	£'000	£'000	£'000	£'000
COST OR VALUATION						
At 1 August 2007	16,700	47,700	–	7,037	6,411	77,848
Additions	2,300	–	937	3,128	1,031	7,396
Disposals	–	–	–	(208)	(985)	(1,193)
At 31 July 2008	19,000	47,700	937	9,957	6,457	84,051
DEPRECIATION						
At 1 August 2007	320	1,963	–	263	3,508	6,054
Charges for the year	343	1,963	–	996	1,959	5,261
Disposals	–	–	–	(208)	(985)	(1,193)
At 31 July 2008	663	3,926	–	1,051	4,482	10,122
NET BOOK VALUE						
Balance at 31 July 2008	18,337	43,774	937	8,906	1,975	73,929
Balance at 31 July 2007	16,380	45,737	–	6,774	2,903	71,794

10 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 2007	16,700	47,700	–	7,037	6,390	77,827
Additions	2,300	–	937	3,129	1,031	7,397
Disposals	–	–	–	(208)	(985)	(1,193)
At 31 July 2008	19,000	47,700	937	9,958	6,436	84,031
DEPRECIATION						
At 1 August 2007	320	1,963	–	263	3,527	6,073
Charges for the year	343	1,963	–	996	1,959	5,261
Disposals	–	–	–	(208)	(985)	(1,193)
At 31 July 2007	663	3,926	–	1,051	4,501	10,141
NET BOOK VALUE						
Balance at 31 July 2008	18,337	43,774	937	8,907	1,935	73,890
Balance at 31 July 2007	16,380	45,737	–	6,774	2,863	71,754

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:

	2008	2007
	£'000	£'000
Freehold	13,554	13,814
Long leasehold	9,414	9,575
Facility improvements	5,728	7,217
	<u>28,696</u>	<u>30,606</u>

Notes to the financial statements *continued*

31 July 2008

11 Investments

Investments in joint ventures

The School has a 50% joint holding in UCLBS which has a 100% holding in CSEL. For the period to 31 March 2008 UCLBS also had a 100% holding in LTN. With effect from 1 April 2008 LTN changed its legal status to a Community Interest Company and ceased to be a subsidiary company of UCLBS. The CSEL was incorporated on 28 April 2000 and is a company limited by guarantee. It is funded by a grant from the Office of Science and Technology and aims to act as a commissioning and funding body to promote the transfer of science and technology ideas into commercial products and services. This includes establishing new academic courses, training academic staff, and commissioning specific teaching materials.

The School has a joint holding which it shares equally with University of the Arts London (UAL) in the CCB. The CCB was incorporated on 6 July 2004 and is a company limited by guarantee. The CCB is government funded and its aim is to inject business acumen and management skills into the UK's creative industries. With effect from 1 August 2008 the assets of the CCB are to be transferred to UAL, and the CCB will be dissolved.

The School has a joint holding which it shares equally with Babson College USA 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's accounting period ends on 31 December.

All the joint ventures are charitable companies. Their financial statements are prepared under the Charities Statement of Recommended Practice. On consolidation an adjustment is made to reflect the differing treatment of grants in Charity and HEI financial statements. In HEI financial statements grants are credited to income only when the conditions attaching to their receipt have been met, such as incurring the appropriate expenditure. GERA and the CCB are not funded by restricted grants and have been accounted for under the gross equity method. A share of their operating surplus has been recognised in the income and expenditure account accordingly.

Joint ventures are included in the financial statements as follows:

	CSEL	LTN	CCB	GERA	2008 £'000 Total	CSEL	LTN	CCB	GERA	2007 £'000 Total
Share of gross assets	568	–	110	185	863	742	386	127	153	1,408
Share of gross liabilities	(568)	–	(71)	(119)	(758)	(742)	(386)	(53)	(99)	(1,280)
Total	–	–	39	66	105	–	–	74	54	128

Endowment and other investments

	2008 £'000	2007 (as restated) £'000
Endowment investments	11,881	11,002
Investments held by SPV	7	7
Other investments	18,032	21,103
	<u>29,920</u>	<u>32,112</u>

11 Investments *continued*

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 Barclays Global Investors Limited. They are shown in the balance sheet at market value.

As at 31 July:

	2008 £'000	2007 £'000
Market value	29,913	32,105
Book cost	29,684	29,169

Shares in subsidiaries

	2008 £'000	2007 £'000
London Business School Trust Company Limited	4	4
London Business School Trading Company Limited	91,304	91,304
	91,308	91,308

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 held two shares in the subsidiary company, London Business School Trust Company Limited, at 31 July 2008 as nominee for the School. The remaining two shares were transferred from Sir Andrew Likierman to Mr Robin Buchanan on 1 September 2007 and are held 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 (2007: 91,304) ordinary shares of £1 each, being the total issued share capital of the company.

The quasi-subsidary 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.

Notes to the financial statements *continued*

31 July 2008

12 Debtors

	Consolidated		School	
	2008	2007	2008	2007
		(as restated)		
	£'000	£'000	£'000	£'000
Trade debtors	14,652	9,686	7,825	5,630
Amounts owed by related companies	–	–	14,044	12,145
Other debtors	1,249	2,926	1,348	2,620
Prepayments and accrued income	3,351	2,047	2,146	1,449
	<u>19,252</u>	<u>14,659</u>	<u>25,363</u>	<u>21,844</u>

Included within other debtors is £977,000 of teaching and research grants which have yet to be received, for which project expenditure has already been incurred (2007: £1,684,000).

13 Creditors: amounts falling due within one year

	Consolidated		School	
	2008	2007	2008	2007
		(as restated)		
	£'000	£'000	£'000	£'000
Bank overdraft	1,505	734	1,293	733
Course payments received in advance	19,245	15,424	19,246	15,424
Other creditors	849	1,190	206	107
Accruals and deferred income	18,652	15,788	15,539	13,571
Amounts owed to related companies	–	–	4,120	3,949
Social security and other taxation	1,154	1,174	1,142	1,147
Trade creditors	2,591	3,082	2,114	2,838
	<u>43,996</u>	<u>37,392</u>	<u>43,660</u>	<u>37,769</u>

Included within accruals and deferred income is £3,320,000 of teaching and research grants which have been received in advance of project expenditure (2007: £2,932,000).

14 Endowments

	Balance at 31 July 2007 (as restated) £'000	Transfers 2008 £'000	Income 2008 £'000	Loss on investments 2008 £'000	Expenditure 2008 £'000	Balance at 31 July 2008 £'000
Specific						
Chairs	327	2	252	–	(111)	470
Scholarships	991	(1)	528	–	(383)	1,135
Infrastructure	504	(500)	269	–	(217)	56
Other	1,298	452	274	(287)	(383)	1,354
Total Specific Endowments	3,120	(47)	1,323	(287)	(1,094)	3,015
Permanent						
Chairs	2,135	–	1,000	–	–	3,135
Scholarships	2,320	–	209	–	–	2,529
Other	3,427	–	409	(634)	–	3,202
Total Permanent Endowments	7,882	–	1,618	(634)	–	8,866
Total	11,002	(47)	2,941	(921)	(1,094)	11,881

Specific Endowments comprise monies received, which are expendable but restricted by type.

Permanent Endowments comprise monies received, which are to be held in perpetuity. The only expendable element being Investment Return, as allocated by London Business School.

Chair funds comprise monies received from various donors to fund a chair in their name at London Business School.

Scholarship funds comprise monies held 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 and Specific Endowments are represented by investments.

Notes to the financial statements *continued*

31 July 2008

15 Reserves

Consolidated	Specific endowments (as restated) £'000	Permanent endowments £'000	General reserves (as restated) £'000	Pension reserve £'000	Revaluation reserve £'000	Total (as restated) £'000
At 1 August 2007	3,120	7,882	14,915	(2,917)	32,753	55,753
Net movement	(105)	984	(2,737)	(2,746)	–	(4,604)
At 31 July 2008	<u>3,015</u>	<u>8,866</u>	<u>12,178</u>	<u>(5,663)</u>	<u>32,753</u>	<u>51,149</u>

School	Specific endowments £'000	Permanent endowments £'000	General reserves £'000	Pension reserve £'000	Revaluation reserve £'000	Total £'000
At 1 August 2007	–	–	(152)	(2,917)	32,753	29,684
Net movement	–	–	200	(2,746)	–	(2,546)
At 31 July 2008	<u>–</u>	<u>–</u>	<u>48</u>	<u>(5,663)</u>	<u>32,753</u>	<u>27,138</u>

16 Deferred capital grants

	HEFCE £'000	Consolidated Other (as restated) £'000	Total (as restated) £'000	HEFCE £'000	School Other £'000	Total £'000
At 1 August 2007						
Buildings	3,921	19,494	23,415	3,921	18,494	22,415
Equipment	1,221	–	1,221	1,221	–	1,221
Total	<u>5,142</u>	<u>19,494</u>	<u>24,636</u>	<u>5,142</u>	<u>18,494</u>	<u>23,636</u>
Cash received						
Buildings	–	200	200	–	200	200
Equipment	1,148	–	1,148	1,148	–	1,148
Total	<u>1,148</u>	<u>200</u>	<u>1,348</u>	<u>1,148</u>	<u>200</u>	<u>1,348</u>
Released to income and expenditure						
Buildings	416	435	851	416	435	851
Equipment	905	–	905	905	–	905
Total	<u>1,321</u>	<u>435</u>	<u>1,756</u>	<u>1,321</u>	<u>435</u>	<u>1,756</u>
At 31 July 2008						
Buildings	3,505	19,259	22,764	3,505	18,259	21,764
Equipment	1,464	–	1,464	1,464	–	1,464
Total	<u>4,969</u>	<u>19,259</u>	<u>24,228</u>	<u>4,969</u>	<u>18,259</u>	<u>23,228</u>

In accordance with the HEFCE 2007 SORP consolidated deferred capital grants brought forward have been restated to include £1 million received for infrastructure that had previously been included within restricted reserves.

17 Capital commitments

Capital expenditure amounting to £1.9 million was authorised or contracted for at 31 July 2008 (2007: £2.3 million).

18 Lease commitments

	Land and buildings 2008 £'000	Land and buildings 2007 £'000	Plant and machinery 2008 £'000	Plant and machinery 2007 £'000
Expiring within 1 year	45	45	35	52
Expiring within 2-5 years	90	–	–	104
Expiring in more than 5 years	406	496	–	–
	<u>541</u>	<u>541</u>	<u>35</u>	<u>156</u>

19 Pension schemes

(a) Pension scheme details

The two principal pension schemes for the School's staff are the Universities Superannuation Scheme (USS) and the London Business School Staff Pension Scheme (SPS). Both schemes are defined benefit schemes and the assets of both schemes are held in separate trustee-administered funds. USS provides benefits based on final pensionable salary for academic and some employees of all UK Universities and some other employers. SPS provides similar benefits for other staff of the School.

Key assumptions and summary data are as follows:

	USS 31 March 2005	SPS 1 August 2006
Latest actuarial valuations		
Assumptions		
Investment returns (per annum)	6.2%	6.2%
Salary scale increases (per annum)	3.9%	4.3%
Pension increases (per annum)	2.9%	3.2%
Rate of inflation (per annum)	<u>2.9%</u>	<u>3.3%</u>
Actuarial valuation data	£'000	£'000
Market value of assets	21,740,000	6,041
Market value of past service liabilities	<u>(28,308,000)</u>	<u>(7,942)</u>
Deficit of assets	(6,568,000)	(1,901)
Proportion of members' accrued benefits covered by assets	<u>77%</u>	<u>76%</u>
Contribution rates		
Employer's contribution rate for the year to 31 July 2007	14%	17.60%
Employer's contribution rate for the year to 31 July 2008	<u>14%</u>	<u>18.85%</u>
Pension cost		
The total pension cost for the School for the year ended 31 July was:		
	2008	2007
	£'000	(as restated) £'000
Contributions to USS defined benefit scheme	2,524	2,322
Contributions to SPS defined benefit scheme	527	572
Contributions to defined contribution scheme	<u>46</u>	<u>48</u>
	<u>3,097</u>	<u>2,942</u>

Notes to the financial statements *continued*

31 July 2008

19 Pension schemes *continued*

(b) USS – FRS 17

The USS is externally funded and contracted out of the State Second Pension (S2P). Liabilities are valued every three years by a professionally qualified independent actuary using the projected unit method, the rates of contribution payable being determined by the Trustee on the advice of the actuary. In the intervening years, the actuary reviews the progress of the scheme. Pension costs are assessed in accordance with the advice of the actuary, based on the latest actuarial valuation of the scheme, and are accounted for on the basis of charging the cost of providing pensions over the period during which the institution benefits from the employees' services.

As the USS is a multi-employer scheme it is not possible to identify the School's share of the underlying assets and liabilities of the scheme. Hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the income and expenditure account is equal to the contributions payable to the scheme for the year.

(c) SPS – FRS 17

For the SPS scheme FRS 17 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:

	2008	2007
Discount rate for liabilities	5.50%	5.90%
Retail price inflation	3.90%	3.30%
Future pay increases	4.90%	4.30%
Future increases to pensions in payment	3.70%	3.20%
Mortality table	PMA92/PFA92, year of birth, medium cohort	PMA92/PFA92, year of birth, medium cohort
Expected return on assets	6.65%	6.93%

Value of liabilities and resulting deficit:

	2008 £'000	2007 £'000
Total market value of assets	6,860	6,945
Present value of liabilities	(12,523)	(9,862)
Deficit	<u>(5,663)</u>	<u>(2,917)</u>

19 Pension schemes *continued*

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

	2008 £'000	2007 £'000
Opening value of assets	6,945	5,986
Expected return	499	399
Asset (loss) / gain	(1,087)	268
Contributions (employer and member)	613	662
Benefits paid	(82)	(316)
Expenses paid	(28)	(54)
Closing value of assets	<u>6,860</u>	<u>6,945</u>

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

	2008 £'000	2007 £'000
Equities	2,752	2,865
Gilts	1,318	1,204
Bonds	1,587	1,453
Property	1,115	1,101
Cash	88	—
Other	—	322
Total	<u>6,860</u>	<u>6,945</u>

Changes in the present value of the liabilities are:

	2008 £'000	2007 £'000
Opening value of liabilities	9,862	10,798
Interest cost	600	577
Service cost (including member contributions)	376	496
Experience (gain) / loss	(524)	675
Change of assumptions loss / (gain)	2,291	(2,368)
Benefits paid	(82)	(316)
Closing value of liabilities	<u>12,523</u>	<u>9,862</u>

Notes to the financial statements *continued*

31 July 2008

19 Pension schemes *continued*

The amounts recognised in the income and expenditure account are:

	2008 £'000	2007 £'000
Current service cost	291	422
Interest on liabilities	600	577
Expected return on assets	(499)	(399)
Expenses paid	28	54
Total expense	<u>419</u>	<u>654</u>

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

	2008 £'000	2007 £'000
Actual return less expected return on assets	(1,087)	268
Experience gains and losses arising on the liabilities	524	(675)
Changes in assumptions underlying the present value of the liabilities	(2,291)	2,368
Total recognised (loss) / gain	<u>(2,854)</u>	<u>1,961</u>

History of experience of gains and losses:

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Present value of liabilities	12,523	9,862	10,798	8,582	5,859
Total market value of assets	<u>6,860</u>	<u>6,945</u>	<u>5,986</u>	<u>4,590</u>	<u>3,830</u>
Deficit	<u>(5,663)</u>	<u>(2,917)</u>	<u>(4,812)</u>	<u>(3,992)</u>	<u>(2,029)</u>
Experience gain / (loss) on liabilities	524	(675)	(58)	(45)	(229)
Experience gain / (loss) on assets	(1,087)	268	522	(98)	(101)

20 Related party transactions

During the year some governors earned consultancy fees from a quasi-subsiary of the School, the Centre for Management Development Company Limited.

	2008 £	2007 £
Professor Andrew Scott	16,500	75,000
Professor Nirmalya Kumar	8,000	197,372
Professor Sir Andrew Likierman	—	8,000
Professor Julian Birkinshaw	69,600	—
Professor Randall Peterson	79,625	—
Professor Nader Tavassoli	<u>113,500</u>	<u>—</u>

The School rents one property (2007: one) from Professor Elroy Dimson on an arms length basis for a total cost of £22,000 (2007: £22,000).

As allowed under FRS 8 "Related party transactions", transactions and balances between group entities have not been disclosed as they have been eliminated on consolidation.

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Professor of Accounting
London Business School

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Nanoventures

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London Business School

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Professor of Strategic and International Management

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Dean

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Professor Francesca Cornelli (appointed 10 October 2007)

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London Business School

Mr Martin Deboo

Consumer Goods Analyst

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London Business School

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Professor Nirmalya Kumar (retired 21 November 2007)

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Professor of Marketing

London Business School

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Professor of Accounting

London Business School

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President, Ffestiniog Company LLC

Mr Terry Neill

Director, Bank of Ireland plc and CRH plc

Professor Randall Peterson

Deputy Dean (Faculty)

Professor of Organisational Behaviour

London Business School

Dr David E Potter CBE

Chairman and Founder

Psion plc

Professor Andrew Scott (retired 14 November 2007)

Professor of Economics

Joint Chair of Economics

London Business School

Professor Adrian Smith (retired 31 July 2008)

Principal

Queen Mary, University of London

Sir Martin Sorrell

Chief Executive

WPP Group plc

Professor Nader Tavassoli (appointed 10 October 2007)

Professor of Marketing

Chair of Marketing

London Business School

Mr David Williams

Operating Partner, Duke Street Capital

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Mr Francis Finlay

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Mr Robin Buchanan, Dean

Secretary:

Mr Philip Willatt, Director Human Resources

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