



Internationella Engelska Skolan 2016/2017

Interim Report - (1 July - 31 December 2016)

Progress of operations in quarter 2 (October-December)

- Total operating income was up by 15.6% on the corresponding quarter of the previous year, mainly due to increased student numbers, and central government subsidies for the *Lärarlönelyftet* (teacher salary boost) and *Läxhjälp* (homework support) programs, and amounted to MSEK 544.4 (471.0)
- The number of students in the Swedish operation at the end of the autumn term was 21,407 (19,795)
- There were around 133,000 registrations on waiting lists at the end of the quarter, an increase of some 11,000 registrations, (9%) compared to 30 September 2016
- Operating profit (EBIT) for the period increased by 22.4% on the corresponding quarter of the previous year, amounting to MSEK 55.2 (45.1). Accordingly, the operating margin was 10.1% (9.6%)
- Profit for the quarter was MSEK 42.6 (34.2)
- Earnings per share were SEK 1.06 (0.85)
- Cash flow from operating activities amounted to MSEK 114.5 (72.3)
- The acquisition of 50% of the shares of three Spanish school operators, which together form Grupo Educativo Elians, was completed on 9 November, for a purchase price of MEUR 5. These three schools have sales of MEUR 12.4, and approximately 1,600 students

Financial performance in the period (July-December)

- Total operating income increased by 13.8% on the corresponding period of the previous year, amounting to MSEK 958.7 (842.8)
- Operating profit (EBIT) adjusted for items affecting comparability for the period increased by 19.3% on the corresponding period of the previous year, to MSEK 91.2 (76.5). The adjusted operating margin was 9.5% (9.1%)
- Profit for the period was MSEK 65.6 (57.3)
- Earnings per share were SEK 1.64 (1.43)
- Cash flow from operating activities amounted to MSEK 202.3 (119.7)

Consolidated Group MSEK	October - December			July - December			July - June
	2016/2017	2015/2016	+/-	2016/2017	2015/2016	+/-	2015/2016
Operating income	544,4	471,0	15,6%	958,7	842,8	13,8%	1 806,8
Operating profit - EBIT	55,2	45,1	22,4%	85,1	76,5	11,3%	169,5
Adjusted operating profit - EBIT	55,2	45,1	22,4%	91,2	76,5	19,3%	178,1
Adjusted EBIT-margin	10,1%	9,6%	0,6%	9,5%	9,1%	0,4%	9,9%
Profit for the period	42,6	34,2	24,7%	65,6	57,3	14,6%	127,0
Earnings per share, SEK	1,06	0,85	0,21	1,64	1,43	0,21	3,17
FTE, average	2 136	1 966	170	2 074	1 887	187	1937

For definitions, see page 19 - 20

CEO's statement

In the second quarter, we measured IES's contribution to raise student performance for three years of senior school for the first time. This measure was obtained by comparing results in national tests in 2016 (grade 9) against 2013 (grade 6). IES's contribution in grades 6-9, what we term the "school effect", are demonstrably significant and above the national average—regardless of the student body's socioeconomic background.

IES does not select its students, its schools are mainly located in "low status" areas, and the share of students with a foreign background is above the Swedish average. Thus our measurements of school effect shows that the same students improve more in IES schools compared to municipal schools. This demonstrates that learning, competence, culture and leadership, as well as other soft factors, determine the outcomes of education—rather than teacher density, type of ownership or other frequently cited features in the debate.

In the quarter, we completed our Spanish acquisition. Our collaboration has got off to a great start, and in January, we located our yearly principals' conference in our Spanish schools, to create a dialogue and an international outlook.

In the coming half-year, our focus in Spain will be on enhancing quality systems and financial controls. In autumn 2017, we expect to continue our acquisition-based growth in Spain.

Strong results—uncertain future

In the quarter, IES's growth and profitability were consistent with our estimates. Total operating income increased year on year, by 15.6% to MSEK 544.4. Total revenues per student increased by 6.9%. Revenues include MSEK 5.5 of central government subsidies for *Läxhjälp* (homework support) and MSEK 15.1 of central government subsidies for *Lärlönelyftet* (teacher salary boost).

Excluding both these subsidies, total revenue per student was up by 3.0%. Operating profit (EBIT) increased by 22.4% to MSEK 55.2, equating to an operating margin of 10.1%.

Our earnings are strong. But we also view developments with some concern, both in terms of central government decisions that affect us, as well as regarding municipal compensation in relation to teacher wage creepage.

In the autumn, we perceived a significant risk that VAT reimbursement for privately delivered welfare services would be cut from 6 to 5%. We note that no amendment was implemented. However, there is still some concern that a proposal will be forthcoming.

In the calendar year 2016, IES was granted additional funding for homework support corresponding to some MSEK 18. It is uncertain whether this central government subsidy will have the same structure in 2017.

The single biggest challenge is the shortage of teachers, and rising salaries that are not being compensated through increased school vouchers.

The increase of school vouchers for the calendar year 2017 is down by some 0.5 percentage points on the previous year. This equates to some MSEK 10 in the current operation. This, and the fact that teacher wage creepage is still high, creates some increased pressure on the profitability of our operations.

We look to compensate for this through increased efficiencies within non-staff related expenses, as a result the cost per student for premises and administration in the first half-year, adjusted for items affecting comparability, remain in line with the previous year. When we plan and execute efficiency measures, we are careful to avoid them adversely affecting the education quality we deliver for our students.

Municipal compensation per student includes compensation corresponding to the municipal cost of premises for school operations. In this context, we are concerned that certain municipalities have started not to recognize the true cost for their premises, by taking away return requirements on their school properties. This in turn, reduces the voucher increase.

This is problematic, because a lot of new school builds will be required in future. For example, Stockholm needs to build 40 new schools. We are contributing to reducing municipal investment needs through our close partnerships with real estate companies. Not revealing the true cost to taxpayers, as some municipalities are now doing, we believe is directly counterproductive.

High number of new start-ups

We completed the appointment of principals for our new schools in Årsta, Landskrona, Södertälje and Helsingborg in the quarter, which will open in autumn 2017. We also started introducing principals, including planning for recruitment and enrolment in our new schools. Based on the high interest we see for our schools, we feel confident that the number of classes and students will reach satisfactory levels.

We previously reported that in 2018, IES will open schools in Sundbyberg and Huddinge (Länna). After the end of the quarter, we filed five applications with the Swedish Inspectorate of Schools to establish and conduct preschool and compulsory school operations, F-9, in Huddinge (Länna), with scheduled start in 2018, as well as Österåker, Östersund, Skellefteå and the Municipality of Ekerö, with earliest scheduled starts in 2019. We are also filing an application to expand our current compulsory school operation with F-3 at Halmstad and Huddinge (Flemingsberg), with earliest scheduled start in 2019. We also have eight permits for new schools that we have not yet used. We have permits for Malmö, Stockholm (Mariehäll), Stockholm (Spånga) and Sollentuna, for F-9, and Haninge, Karlskrona, Luleå and Växjö, for 4-9. In addition we have approved permits to extend the year levels for our existing schools in Borås and Linköping, for F-3, Järfälla, for 4-5 and Sundsvall, where an expansion of the school building is in progress, for year 3.

Scheduled inspections

The Swedish Schools Inspectorate scheduled inspections of IES have commenced, and will continue from February to May. All our school units will be inspected. We are well prepared for this, but assume that such extensive scrutiny will result in a number of observations by the Inspectorate. This is a natural part of the Swedish regulatory system, which inspects for non-compliance. Accordingly, these inspections will not result in any comprehensive statement of opinion on the quality of our operations.

An assault on free enterprise

The Reepalu Inquiry has attracted major media attention in Sweden. This Inquiry is an attempt to crudely demolish freedom of choice and initiative, and prevent enterprise, all disguised as an earnings cap.

IES was founded on the idea of enriching and increasing educational diversity, and is founded on the philosophy of a calm and safe working environment where students can focus on learning and teachers can teach. We provide a multicultural environment, with a high proportion of students with foreign backgrounds, where we ensure that everyone can realize their potential. Up to half of our education is conducted in English; our students learn to command the English language, the key to the world. Some 700 teachers have been hired from other countries, to educate students in our schools in subjects where it is difficult to find qualified teachers in Sweden, such as mathematics and science. This is a significant contribution to the supply of teachers, in a situation of severe teacher shortage in Sweden.

These ideas have borne fruit since our inception 24 years ago, thanks to one woman who resigned from her job, and created something without any capital to make a real difference, which has now become Sweden's fourth-largest and most successful compulsory schools operator.

By becoming a genuine alternative, our achievements include helping break down the negative effects of the prevailing housing segregation on schools in Sweden. Daily support and help with homework is provided in all our schools. We also offer our students the possibility of comparing their capabilities with other schools around the world, through our collaboration with Cambridge.

The Reepalu proposal intends to throw this away by creating confusion, uncertainty, eradicating diversity and freedom of choice, while eliminating and diminishing entrepreneurship and personal commitment.

A school for everyone

We at IES continue our work to provide one of the best schools in Sweden, taking a very long-term perspective. We put great emphasis on identifying, hiring, retaining and developing skilled leaders, teachers, and other staff. We are here to ensure that IES remains a respected part of compulsory and upper secondary schooling, and that young people in Sweden get the opportunity to fulfill their potential, whatever their background.

Ralph Riber

CEO

Internationella Engelska Skolan's operations

Quality and professionals

IES possesses long-term and in-depth experience of education, and is now in its 24th year as a free school operator in Sweden. We operate schools from grade 1 up to and including the third year of the upper secondary school program in Sweden. Our primary focus is on grades 4-9.

Apart from its operations in Sweden, IES provides management services for a school in the UK and owns 50% of the shares in three Spanish school companies constituting Grupo Educativo Elians.

The Spanish holdings are recognized in IES as associated companies. Since July 2016, IES has also been providing management services to Elians.

Our schools feature students learning to command English, the global language, in an orderly environment with high academic expectations. Up to half of education is conducted in English by teachers whose native language is English.

Sweden's best school results

In 2015, and once again in 2016, IES achieved top results in nationwide grade 9 tests in English, as well as results significantly above the Swedish school average in mathematics and Swedish. Our schools also performed above the average of free schools.

Share of students achieving grades C+, i.e. A, B or C in the new six-level scale of nationwide grade 9 tests 2016.

Subject	Municipal schools average	Free schools	IES
English	69%	83%	97%
Swedish	51%	64%	72%
Mathematics	35%	45%	60%

The average qualification level (an aggregate measure applied by the Swedish National Agency for Education) at the end of grade 9 in spring 2016 was 271 points for IES, against the national average of 224.

IES is achieving a significantly positive school effect, which means its academic results exceed what the authorities predict based on the statistical correlation between students' socioeconomic backgrounds and their expected results.

IES has a higher share of students with foreign backgrounds than the average for Sweden's municipal schools. 36% of IES's students had a foreign background in the academic year 2015/2016. The corresponding figure for Sweden's municipal schools was 22%. The share born outside Sweden is also higher.

Of all students leaving IES's schools in 2016, 98% had grades qualifying them for upper secondary level. The corresponding share for all ninth grade students in Sweden was 83%.

96% of the respondents to the yearly anonymous survey of parents in IES schools in spring 2016 stated that they would recommend the school to other parents (one of the top two alternatives of the four available).

A major contribution to Swedish education

During a severe teacher shortage, we have currently recruited some 700 qualified foreign teachers with foreign teacher training qualifications for our Swedish schools—mainly from Canada, the US and UK, and especially in mathematics and science, where there are shortages.

In terms of leadership, principalship and quality management, the Swedish Schools Inspectorate regard our schools as representing “a good example” to the Swedish schooling system.

In partnership with the owners of our school premises, we have invested several hundred million kronor in IES schools in recent years, investments that municipalities have been relieved of during years of growing student bases.

We offer the chance of an orderly environment and a good education for thousands of young people with Swedish and foreign backgrounds.

We make a significant contribution to improving the residential areas where our schools are located.

We enhance the attractions of Sweden, especially in university towns and where Sweden’s global industrial corporations are located, in their vital efforts for Sweden to secure the necessary expertise and talent from other countries. We operate tried and tested processes and methodologies to transform our convictions into reality.

The fundamental principles of our operation

Commanding the English language—up to half of our education is conducted in English, mainly by teachers from English-speaking countries. English should normally be used for conversation in our corridors and classrooms. Our schools feature a multinational atmosphere, with a mix of teachers from many different countries making a major contribution in this respect. IES promotes complete bilingualism—skills in Swedish develop in tandem with English.

A secure and orderly school environment where teachers can teach and students can learn—we operate a Code of Conduct that parents and students sign. Our principal should be present, visible and active during the school

day. Classes start punctually with students standing in line outside each classroom. Classrooms are orderly. Mobile phones are not permitted in classrooms during the school day. We have zero tolerance for graffiti. There is no littering. We also maintain good manners, with appropriate responses: “Yes, please” and “No, thank you.” Our teachers and other staff must dress appropriately for the workplace, their schools. Any expression of bullying or offensiveness is dealt with immediately and resolutely. School toilets are kept hygienic and clean. Teachers and other staff are addressed by their title, Mr./Ms./Dr., and surname: “Mr. Larsson, Dr. Heimeier.” Every school has a strong student care team. Principals hold regular meetings with student councils, to hear their observations. PTAs—Parent/Teacher Associations—provide additional support to schools.

Yearly surveys of students and teachers provide further information to school leaders and principals on areas of improvement. The consistent emphasis is that the school is a workplace for teachers and students. Everybody should feel proud of their school as an orderly and well-functioning workplace.

High academic expectations and ambitions—Lessons start on time and periods are utilized fully, without distractions. The working memory of every student must be focused on the tasks in hand. The school monitors student attendance and absence patterns closely. Every student has a teaching mentor. The mentor calls home or meets parents at least once a month. There are extra support classes in each subject, held at least one hour a week. Testing is conducted promptly after each section of the subject, to ensure that everyone has understood. Academic notices are used to provide early and clear warnings to students and parents whenever there is a risk that targets will not be achieved. Home study is given regularly. Parents are kept well-informed on the curriculum plans of each subject for the semester, test schedules, etc.; parental support is encouraged. Additional resources are assigned to tasty and nutritious school lunches for students and staff. Teachers are expected to contribute additional activities each week from their personal interests. Mid-semester, mentors hold a formal appraisal interview with parents and students; this is preceded by a report sent out on the student’s progress in each subject, which serves as a basis for the interview.

Best practice is shared between our current total of 30 schools, headcount of over 2,300 employees and over 21,400 students in a collaborative atmosphere that promotes the best interests of our schools and students.

Market overview

Sweden's school system covers preschools to adult education. Preschools and preschool classes are voluntary, while grade 1-9 is compulsory and upper secondary school is a three-year, voluntary program. Sweden's 290 municipalities have been responsible for funding the school system since the early-1990s, and for ensuring that all students have access to equal education.

In the academic year 2015/16, there were 4,012 municipal school units in Sweden, 5 Sami school units and 827 free school units at compulsory schooling level. In the same period, over 985,000 students attended compulsory schools, an increase of over 36,000 students on

the previous academic year. Total municipal expenses for compulsory schooling amounted to approximately SEK 97 bn in the calendar year 2015.

In Sweden, grade 1-9 schooling is compulsory for all children from the calendar year they reach 7 years old. Compulsory schooling then continues for nine years, or at the latest, to the time the student reaches 18. Sweden's municipalities bear the main responsibility for ensuring attendance in grade 1-9 schooling, and for funding schooling.

Compulsory school attendance means that the student base in grade 1-9 schooling basically tracks the population growth of children of school age. Since 2010, student bases have expanded by average annual growth of about 2%. In the same period, the number of students deciding to join independent schools increased by an average annual growth rate of some 7%. In the academic year 2015/2016, 14% of compulsory school students were in free schools.

1 October – 31 December 2016

Total operating income and operating profit

Total operating income increased by 15.6% to MSEK 544.4 (471.0). The growth is primarily explained by the new school for this academic year, IES Älvsjö, new central government subsidies, such as *Läxhjälp* (homework support) and *Lärarlönelyftet* (teacher salary boost), and a higher number of classes in existing schools compared to the previous year. The total number of classes increased to 711 (660). At the end of the quarter, there were 21,407 (19,795) students.

Total income per student increased by 6.9%. The income includes MSEK 5.5 in government subsidies for homework support, and MSEK 15.1 of central government subsidies for teacher salary boost. Excluding both these subsidies, total revenues per student increased by 3.0%. The government subsidy for the teacher salary boost in the first half-year 2016/17 was not determined and paid out until the second quarter, and accordingly, total subsidy revenues for this initiative were recognized as revenue in the second quarter.

Personnel expenses per student increased by 8.8% on the previous year. Personnel expenses include MSEK 8.4 of expenses relating to the *Lärarlönelyftet* initiative. Nearly 90% of the costs associated with *Lärarlönelyftet* are covered by the government subsidy. The supply of qualified teachers on the Swedish schools market is currently below demand, contributing to higher wage creepage on the market. Additionally, the discount on social security expenses for younger staff was abolished on 1 June 2016.

Total costs per student increased by 6.2%. In the second quarter, IES did not have any revenues or expenses affecting comparability. Operating profit (EBIT) increased by 22.4%, and amounted to MSEK 55.2 (45.1). Accordingly, the operating margin was 10.1% (9.6)

Total operating income in Sweden was MSEK 544.3 (470.8), and operating profit (EBIT) was MSEK 55.4 (45.2).

Total operating income in the UK was MSEK 0.1 (0.2), and the operating profit (EBIT) was MSEK -0.2 (-0.1).

Net financial income/expense

Net financial income/expense was MSEK -2.0 (-1.1). Net financial income/expense for the quarter includes the impairment of a financial receivable of MSEK 3.5, and a positive currency effect of MSEK 1.7.

Tax

The tax expense for the quarter was MSEK 11.9 (9.8), corresponding to an effective tax rate of 21.9% (22.3).

Profit for the quarter and earnings per share

Profit for the quarter was MSEK 42.6 (34.2), and the margin was 7.8% (7.3). Profit for the quarter includes profit from participations in the Spanish school operation Elians of MSEK 1.4. Earnings per share were SEK 1.06 (0.85).

Cash flow

Cash flow from operating activities was MSEK 114.5 (72.3). The strong cash flow is partly due to advance rent payments for the third quarter of some MSEK 35 being paid in early-January, instead of the end of December, as in previous years.

Cash flow from changes in financial assets amounted to MSEK -46.5 (-0.7), mainly consisting of the purchase consideration for the Spanish operation.

Financial position, cash and cash equivalents

Equity at the end of the quarter was MSEK 795.8 (660.5) and the group's total assets were MSEK 1,205.0 (1,158.6). The equity/assets ratio was 66.0% (57.0).

Cash and cash equivalents amounted to MSEK 208.6 (232.7).

Investments

Investments in the second quarter amounted to MSEK 8.0 (17.0).

Human resources

The average number of full-time equivalent employees (FTE) was 2,136 (1,966) in the quarter. At the end of the quarter, employee headcount was 2,279 (2,226).

1 July – 31 December 2016

Total operating income and operating profit

Total operating income increased by 13.8% to MSEK 958.7 (842.8). The growth is primarily explained by the new school for this academic year, IES Älvsjö, new central government subsidies, such as *Läxhjälp* (homework assistance) and *Lärarlönelyftet* (teacher salary boost), and a higher number of classes in existing schools compared to the previous year. The total number of classes increased to 711 (660). At the end of the period, there were 21,407 (19,795) students.

Total income per student increased by 5.1%. The income includes MSEK 9.1 in government subsidies for homework support, and MSEK 15.1 of central government subsidies for teacher salary boost. Excluding both these subsidies, the total revenues per student increased by 2.4%.

Personnel expenses per student increased by 7.9% year on year. Personal expenses include MSEK 16.8 for expenses relating to the teacher salary boost initiative. Nearly 90% of our costs for this initiative are covered by the central government subsidy. The supply of qualified teachers on the Swedish school market is currently lower than demand, which is contributing to increased wage creepage on the market. The discount on social security expenses for younger employees has been fully abolished since 1 June 2016.

Adjusted for these items affecting comparability, total costs per student increased by 4.6%. Improved purchasing agreements and economies of scale due to high growth in the number of schools and classes offset the increase in personnel expenses per student.

Operating profit (EBIT) increased by 11.3%, and amounted to MSEK 85.1 (76.5).

Operating profit (EBIT) adjusted for items affecting comparability increased by 19.3% and amounted to MSEK 91.2 (76.5). Accordingly, the adjusted operating margin amounted to 9.5% (9.1).

Total operating income in Sweden was MSEK 958.5 (842.4), and operating profit (EBIT) was MSEK 85.4 (76.6).

Total operating income in the UK was MSEK 0.2 (0.4), and operating profit (EBIT) was MSEK -0.3 (-0.1).

Items affecting comparability

IES incurred expenses affecting comparability for its IPO on Nasdaq and the Spanish acquisition in the period amounting to MSEK 6.1 (-).

Net financial income/expense

Net financial income/expense was MSEK -2.1 (-2.7). Net financial income/expense includes the impairment of a financial receivable of MSEK 3.5 and a positive currency effect of MSEK 2.8.

Tax

The tax expense for the period was MSEK 18.7 (16.5), corresponding to an effective tax rate of 22.2% (22.3).

Profit for the period and earnings per share

Profit for the period was MSEK 65.6 (57.3), and the margin was 6.8% (6.8). Profit for the period includes profit from participations in Spanish school operation Elians amounting to MSEK 1.4. Earnings per share were SEK 1.64 (1.43).

Cash flow

Cash flow from operating activities was MSEK 202.3 (119.7). The strong cash flow is due to a sharp decrease in working capital.

Cash flow from changes in financial assets amounted to MSEK -67.0 (1.1), mainly consisting of the purchase consideration for, and loan to, the Spanish operation.

Financial position, cash and cash equivalents

Equity at the end of the period was MSEK 795.8 (660.5) and the group's total assets were MSEK 1,205.0 (1,158.6). The equity/assets ratio was 66.0% (57.0).

Cash and cash equivalents amounted to MSEK 208.6 (232.7).

Investments

Investments, which are seasonally high in the first half-year, amounted to MSEK 46.4 (57.8).

Human resources

The average number of full-time equivalent employees (FTE) was 2,074 (1,887) in the period. At the end of the period, employee headcount was 2,279 (2,226).

Shares

The number of shares registered is 40,050,000.

Risks and uncertainty factors

Significant operating, external and financial risks and uncertainty factors are described in detail in Internationella Engelska Skolan i Sverige Holdings II AB's annual accounts for 2015/16, in the Directors' Report and note 17.

Apart from the risks reviewed in the Annual Report and in the CEO's statement on page 3 on the Reepalu Inquiry's proposals, IES does not consider that any significant risks additional to those described in the Annual Report have arisen.

Operational risks include fluctuations in demand and student numbers, risks related to supply of staff and salary expenses, risks related to quality shortcomings, IES's reputation and brand, permits and liability and property risk. External risks include risks related to school voucher funding and economic cycles, political risks, changes to legislation and regulatory frameworks and dependence on national authorities in the field of education. Political risks include the introduction of changes to standard VAT rates in school voucher funding or any form of restrictions on profit and dividends. The various political proposals share the common feature that processes are often lengthy and that the proposals need to be formulated in legally viable terms that are then subject to parliamentary votes.

Events after the end of the period

At the end of January, the subsidiary Internationella Engelska Skolan i Sverige AB filed five new applications with the Swedish Schools Inspectorate to start up and conduct pre-school and compulsory school operations, with earliest scheduled start in 2018. These applications are for school operations in grade F-9 in Österåker, Östersund, Skellefteå, Huddinge (Länna), and the Municipality of Ekerö. They are the first phase of a process where potential decisions on start-ups and which grades and operations are covered are taken at a later stage. The company is also filing an application to expand its current compulsory school operation with F-3 in Halmstad and Huddinge (Flemingsberg), with earliest scheduled start in 2019.

Future prospects

IES does not issue forecasts.

Related party transactions

Through the three 50%-owned Elians companies in Spain, the group has a related party relationship with Internationella Engelska Skolan i Sverige Holdings II AB. A management fee of SEK 226,000 was debited to the three Spanish companies in the period. Internationella Engelska Skolan i Sverige Holdings II AB also issued a MEUR 2.1 loan to the three companies, with accrued but non-due interest amounting to EUR 62,000 at the end of the period.

IES

On occasion, Internationella Engelska Skolan i Sverige Holdings II AB is referred to as Internationella Engelska Skolan or IES. In this Report, such references are to IES's consolidated financial statements, unless clearly stated otherwise.

Finance

The group is partly funded by a bank loan from Handelsbanken, which amounted to MSEK 61.3 at the end of the period. The loan is subject to quarterly repayments, and will be fully repaid in November 2017. See note 4, page 17.

Seasonality

IES's total operating income and profitability are affected by the nature of operations, and accordingly, its cycle. Sales and profitability are somewhat lower in the first quarter than in other quarters due to schools' summer recess.

Parent company

In 2014/15, parent company Internationella Engelska Skolan i Sverige Holdings II AB did not conduct operating activities. In August 2015/2016, the parent company arranged a loan from Handelsbanken, and issued intragroup loans to subsidiaries. Effective April 2016, the parent company has started billing management services to subsidiaries, and from July 2016 management services to Elians in Spain. The parent company also issued a loan of MEUR 2.1 in working capital to Elians in July 2016. In August 2016, the parent company raised an internal loan from the subsidiary Internationella Engelska Skolan i Sverige AB.

This report has not been subject to review by the company's auditors.

Stockholm, 23 February 2017

Internationella Engelska Skolan i Sverige AB (publ)

Ralph Riber
Chief Executive Officer

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Teleconference in connection with publication of the quarterly report:

On Thursday 23 February at 10:00 a.m. CET, Ralph Riber, CEO and Fredrik Åkerman, CFO will hold a conference call for the publication of the quarterly report. The call will be held in English. To participate, please call the following number: 46 (0)8 505 96306 and enter the code: 59035777#. The presentation will be uploaded to IES's website before the conference call, at: <http://corporate.engelska.se/financial-information/reports-and-presentations>.

Reporting schedule

Interim Report Q3 2016/17 – 18 May 2017

Financial Statement 2016/17 – 23 August 2017

Internationella Engelska Skolan i Sverige Holdings II AB discloses the information provided herein pursuant to the EU's Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the above contacts, on 23 February 2017 at 08:00 a.m. CET.

Consolidated Income Statement

MSEK	October-December		July-December		July - June
	2016/2017	2015/2016	2016/2017	2015/2016	2015/2016
Operating income					
Revenue	5 05,0	4 57,1	9 03,7	8 17,9	1 7 53,1
Other operating income	39,3	13,9	55,0	24,9	53,7
Operating income	544,4	471,0	958,7	842,8	1 806,8
Operating expenses					
Teaching and meal expenses	-67,4	-60,5	-129,0	-122,1	-242,3
Other external expenses	-105,5	-95,0	-209,7	-184,0	-386,2
Personnel expenses	-302,7	-257,2	-507,1	-434,3	-956,7
Depreciation and amortization	-13,6	-13,2	-27,8	-25,9	-52,1
Operating profit	55,2	45,1	85,1	76,5	169,5
Profit from financial items					
Financial income	2,7	0,0	4,1	0,0	0,1
Financial expenses	-4,7	-1,1	-6,2	-2,7	-5,5
Net financial items	-2,0	-1,1	-2,1	-2,7	-5,3
Pre-tax profit	53,1	44,0	83,0	73,8	164,2
Tax on profit for the period	-11,9	-9,8	-18,7	-16,5	-29,8
Deferred tax	-	-	-	-	-7,5
PROFIT FOR THE PERIOD	42,6	34,2	65,6	57,3	127,0
<i>Earnings per share</i>	1,06	0,85	1,64	1,43	3,17

Consolidated Statement of Comprehensive Income

MSEK	October-December		July-December		July - June
	2016/2017	2015/2016	2016/2017	2015/2016	2015/2016
Profit for the period	42,6	34,2	65,6	57,3	127,0
Other comprehensive income					
<i>Items that may be reclassified to profit or loss</i>					
Translation difference for the year after tax	0,2	0,0	0,1	0,0	0,3
Other comprehensive income, net of tax	0,2	0,0	0,1	0,0	0,3
COMPREHENSIVE INCOME FOR THE PERIOD	42,8	34,2	65,8	57,3	127,2

Consolidated Statement of Financial Position

MSEK	Dec. 31, 2016	Dec. 31, 2015	Jun 30, 2016
Non-current assets			
<i>Intangible assets</i>			
Goodwill	661,0	661,0	661,0
<i>Property, plant and equipment</i>			
Leasehold buildings	7,4	5,3	5,2
Machinery and equipment	127,6	127,8	108,6
Leasehold improvements	29,6	33,4	32,3
<i>Financial assets</i>			
Non-current receivables	-	3,8	3,5
Participation in associated companies	51,1	-	-
Long-term receivables from associated companies	20,2	-	-
Deferred tax assets	1,0	-	0,5
Total non-current assets	898,0	831,4	811,1
Current assets			
Trade accounts receivable	10,7	10,5	9,3
Other receivables	6,4	10,3	22,3
Prepaid expenses and accrued income	81,4	73,7	90,1
Cash and cash equivalents	208,6	232,7	233,4
Total current assets	307,0	327,2	355,1
TOTAL ASSETS	1 205,0	1 158,6	1 166,1
Equity	795,8	660,5	730,2
TOTAL EQUITY	795,8	660,5	730,2
<i>Non-current liabilities</i>			
Liabilities to credit institutions	-	131,3	93,8
Deferred tax liabilities	39,5	31,6	39,5
Total non-current liabilities	39,5	162,8	133,3
<i>Current liabilities</i>			
Liabilities to credit institutions	61,3	93,8	81,3
Trade accounts payable	115,5	82,0	69,6
Current tax liabilities	-	-	-
Other current liabilities	112,0	97,4	49,8
Accrued expenses and prepaid income	80,9	62,1	102,1
Total current liabilities	369,7	335,2	302,7
TOTAL EQUITY AND LIABILITIES	1 205,0	1 158,6	1 166,1

Consolidated Statement of Changes in Equity

	Share capital	Other capital contributed	Translation reserve	Reserves and retained earnings	Total
MSEK					
Opening balance, July 1, 2015	0,1	361,9	0,1	241,3	603,3
Profit for the period				57,3	57,3
Other comprehensive income for the period			0,0		0,0
Total comprehensive income for the period	0,0	0,0	0,0	57,3	57,2
<i>Other</i>					
Translation reserve			0,3	-0,3	0,0
Bonus issue	0,5	-0,5			
Total	0,5	-0,5	0,3	-0,3	0,0
Closing balance, December 31, 2015	0,5	361,5	0,3	298,3	660,5

	Share capital	Other capital contributed	Translation reserve	Reserves and retained earnings	Total
MSEK					
Opening balance, July 1, 2016	0,5	361,4	0,3	367,9	730,2
Profit for the period				65,6	65,6
Other comprehensive income for the period				0,1	0,1
Total comprehensive income for the period				65,8	65,8
<i>Other</i>					
Translation reserve			-0,1		-0,1
Bonus issue	0,5	-0,5			
Total	0,5	-0,5	-0,1		-0,1
Closing balance, December 31, 2016	1,0	360,9	0,2	433,7	795,8

Consolidated Cash Flow Statement

MSEK	October - December		July - December		July -June
	2016/2017	2015/2016	2016/2017	2015/2016	2015/2016
Operating activities					
Operating profit	55,2	45,1	85,1	76,5	169,5
Interest received	2,7	0,0	4,1	0,0	0,1
Interest paid	-4,7	-1,1	-6,2	-2,7	-5,5
Adjustment for items not including in the cash flow	11,2	11,7	27,0	39,2	54,4
Income tax paid	-9,5	-8,3	-17,9	-31,5	-31,9
Cash flow from operating activities before changes in working capital	54,8	47,3	92,0	81,5	186,6
Cash flow from changes in working capital					
Change in operating receivables	1,1	7,1	23,2	-14,0	-38,4
Change in operating liabilities	58,6	17,9	87,0	52,2	32,6
Cash flow from changes in working capital	59,7	25,0	110,2	38,2	-5,8
Cash flow from operating activities	114,5	72,3	202,3	119,7	180,8
Investing activities					
Acquisition of property, plant and equipment	-8,0	-17,0	-46,4	-57,8	-63,8
Change in financial assets	-46,5	-0,7	-67,0	1,1	0,0
Rent paid in advance	-	-	-	-	0,0
Cash flow from investing activities	-54,5	-17,8	-113,3	-56,7	-63,8
Financing activities					
External loans	-	-	-	-	-3,5
Bank loan	-	-	-	74,7	225,0
Amortization of loans, credit institutions	-18,8	-	-113,8	-	-200,0
Cash flow from financing activities	-18,8	0,0	-113,8	74,7	21,5
Cash flow for the period	41,3	54,5	-24,8	137,7	138,5
Cash and cash equivalents at beginning of period	167,3	178,2	233,4	94,9	94,9
Exchange-rate difference in cash and cash equivalents	0,0	0,0	0,0	0,0	0,0
Cash and cash equivalents at end of period	208,6	232,7	208,6	232,7	233,4

Parent Company Income Statement

MSEK	October - December		July - December		July - June
	2016/2017	2015/2016	2016/2017	2015/2016	2015/2016
Operating income					
Revenue	0,7	-	1,6	-	0,5
Other operating income	0,5	-	0,5	-	0,0
Operating income	1,2	-	2,1	-	0,5
Operating expenses					
Teaching and meal expenses	-	-	-	-	-
Other external expenses	-2,4	-	-9,0	-	-8,1
Personnel expenses	-0,9	-	-1,6	-	-1,3
Depreciation and amortization	-	-	-	-	-
Operating profit	-2,0	-	-8,5	-	-8,9
Profit from financial items					
Financial income	2,7	-	0,9	-	2,2
Financial expenses	-4,7	-	-2,2	-	-4,2
Net financial items	-2,1	-	-1,3	-	-2,0
Pre-tax profit	-4,1	-	-9,8	-	-10,9
Dividend received					9,8
Tax on profit for the period	-	-	-	-	-
PROFIT FOR THE PERIOD	-4,1	-	-9,8	-	-1,1

The parent company did not trade during the comparative periods.

Parent Company Statement of Financial Position

MSEK	31 Dec, 2016	31 Dec, 2015	30 jun, 2016
Non-current assets			
<i>Financial assets</i>			
Shares in group companies	361,9	361,9	361,9
Participation in associated companies	54,4	-	-
Long-term receivables from associated companies	20,2	-	-
Non-current receivables	-	3,5	3,5
Total Non-current assets	436,4	365,4	365,4
Current assets			
Intercompany receivables	-	111,0	173,1
Tax receivable	0,2	-	0,1
Other receivables	1,4	-	1,6
Prepaid expenses and accrued income	0,9	0,4	2,6
Cash and cash equivalents	32,6	109,8	-
Total current assets	35,2	221,2	177,5
TOTAL ASSETS	471,6	586,6	542,9
Equity	351,0	361,1	360,9
TOTAL EQUITY	351,0	361,1	360,9
<i>Non-current liabilities</i>			
Liabilities to credit institutions	-	150,0	93,8
Total non-current liabilities	-	150,0	93,8
<i>Non-current liabilities</i>			
Liabilities to credit institutions	61,3	75,0	81,3
Trade accounts payable	1,0	-	1,6
Liabilities to group companies	50,0	-	-
Current tax liabilities	0,0	0,0	0,0
Other current liabilities	0,6	-	0,1
Accrued expenses and prepaid income	7,7	0,5	5,2
Total current assets	120,5	75,5	88,2
TOTAL EQUITY AND LIABILITIES	471,6	586,6	542,9

Notes

1. Accounting policies

IES's consolidated accounts are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU, as reviewed in the annual accounts for 2015/2016. This Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting and applicable provisions of the Swedish Annual Accounts Act. The same accounting policies and computation methods have been applied in this Interim Report as in the most recent annual accounts for 2015/2016. The Interim Report for the Parent Company has been prepared in accordance with Chapter 9, Interim Reports, of the Swedish Annual Accounts Act.

The group's main revenues consist of school voucher funding, which are allocated to the period education is conducted, including prospective and retrospective education work. The related personnel expenses are allocated according to the same policy. For a note on revenue recognition, refer to the annual accounts 2015/2016, note 1 on page 16.

No new or revised IFRS and IFRIC interpretation statements that become effective from 1 January 2016 have had any material impact on the consolidated financial statements. The International Accounting Standards Board has adopted a new accounting standard for lease commitments, IFRS 16 Leases. Provided it gains EU approval, IFRS 16 will come into effect for the financial year starting after 1 January 2019, which for the Company means the financial year starting on 1 July 2019. According to current regulations, lease commitments are reported as an operating expense under external expenses. In summary, IFRS 16 implies that operating leases with terms over one year shall be reported as an asset in the Balance Sheet on the basis of the discounted present value of future payments. A corresponding amount is reported as a liability. The Income Statement will be charged with depreciation over the useful life of the asset, which normally corresponds to the term of the lease, plus interest expenses. IFRS 16 will have a significant impact on the Company's reporting. The cost of operating leases in the financial year 2015/16 amounted to MSEK 258.4. As of 30 June 2016, the undiscounted amount for commitments relating to operating leases was MSEK 4,061.2.

For information on the new standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, refer to the annual accounts 2015/2016, note 1 on page 14.

For more information on accounting policies, refer to the annual accounts 2015/2016.

2. Geographical markets/segments

Operating income and operating profit (EBIT) are divided geographically by market/segment as follows:

Geographical markets / Operating segment	October - December		July - December		July - June
	2016/2017	2015/2016	2016/2017	2015/2016	2015/2016
Operating income (MSEK)					
Sweden	544,3	470,8	958,5	842,4	1 806,0
United Kingdom	0,1	0,2	0,2	0,4	0,7
Operating profit EBIT (MSEK)					
Sweden	55,4	45,2	85,4	76,6	170,2
United Kingdom	-0,2	-0,1	-0,3	-0,1	-0,6

Apart from its operating activities in the UK and Sweden, the group has a related party relationship with Internationella Engelska Skolan i Sverige Holdings II AB through the three 50%-owned Elians associated companies in Spain. The profit from these participations amounted to MSEK 1.4 in the second quarter, and is recognized under financial income in the Consolidated Income Statement. A management fee of SEK 226,000 was also debited to the three Spanish companies in the period. Internationella Engelska Skolan i Sverige Holdings II AB also issued an MEUR 2.1 loan to the three companies, with accrued but undue interest amounting to EUR 62,000 at the end of the period.

3. Financial instruments

There is no significant difference between the carrying amounts and fair values of financial instruments.

4. Financing

On the date of listing on Nasdaq, 29 September 2016, Internationella Engelska Skolan i Sverige Holdings II AB arranged an amortizing loan of MSEK 80 from Handelsbanken with maturity in November 2017, and an overdraft facility of MSEK 100. The amortizing loan accrues variable interest based on STIBOR plus a pre-determined margin. At the end of the period, 31 December 2016, the liability amounted to MSEK 61.3, while the overdraft facility had not been utilized. The overdraft facility is subject to annual contractual interest on the credit amount plus a disposition rate on amounts outstanding from time to time. The overdraft facility has initial maturity on 31 December 2017, and can subsequently be rolled over for one year at a time.

In addition to existing collateral of MSEK 50, an additional floating charge of MSEK 12.5 in Internationella Engelska Skolan i Sverige AB has been raised for the aforementioned loan. Accordingly, total pledged collateral in the form of floating charges amounts to MSEK 62.5.

Apart from the general terms applying to the aforementioned credit facilities, Internationella Engelska Skolan i Sverige Holdings II AB's obligations to Handelsbanken are formalized in an agreement on specific covenants. The agreement includes customary commitments for Internationella Engelska Skolan i Sverige Holdings II AB and its subsidiaries, such as restrictions on issuing security and restrictions on raising financial liabilities. The credit facilities also include financial covenants that stipulate that the relationship between net debt and EBITDA, the debt service ratio and the Group's equity/assets ratio do not depart negatively from specific levels.

5. Pledged assets

Refer to the annual accounts of Internationella Engelska Skolan Holdings II 2015/2016, page 29. In addition, a floating charge totaling MSEK 12.5 in Internationella Engelska Skolan i Sverige AB was raised in the period, relating to the loans specified in note 4, and guarantees issued by Internationella Engelska Skolan i Sverige Holdings II AB for 50% of the property mortgages for the three Spanish Elians companies. The property mortgages amounted to MEUR 12.3 at the end of the period.

6. Group companies

Refer to the annual accounts of Internationella Engelska Skolan Holdings II 2015/2016, page 24.

Key Figures

MSEK	October - December		July - December		July - June
	2016/2017	2015/2016	2016/2017	2015/2016	2015/2016
Operating income	544,4	471,0	958,7	842,8	1 806,8
Operating profit - EBIT	55,2	45,1	85,1	76,5	169,5
Adjusted operating profit - EBIT	55,2	45,1	91,2	76,5	178,1
Adjusted EBIT-margin	10,1%	9,6%	9,5%	9,1%	9,9%
Profit	42,6	34,2	65,6	57,3	127,0
Operating capital	-210,0	-147,0	-210,0	-147,0	-99,7
Return on equity	5,4%	5,2%	3,1%	8,7%	17,4%
Net debt (+) / Net cash (-)	-147,3	-7,7	-147,3	-7,7	-58,4
Equity/assets ratio	66,0%	57,0%	66,0%	57,0%	62,6%
Cash flow from operating activities	114,5	72,3	202,3	119,7	249,7
Investments	-8,0	-17,0	-46,4	-57,8	-63,8
FTE	2 136	1 966	2 074	1 887	1 937

Key ratio definitions

Alternative key figures

The Group uses alternative key ratios to increase the reader's understanding of the progress of operations. We think these alternative key ratios facilitate evaluation and analysis of the Group's progress in important segments such as the potential for dividends and execution of future strategic investments, as well as the Group's ability to satisfy its various financial obligations. Some alternative key ratios, such as adjusted EBIT and adjusted EBIT margins, also enable investors to better judge the progress of earnings between years, excluding items affecting comparability.

Adjusted EBIT margin

Adjusted EBIT as a percentage of total operating profit.

Adjusted EBIT

Operating earnings are earnings after depreciation of acquisition-related intangible assets and before financial items and tax, excluding items affecting comparability.

Cash and cash equivalents

Cash and bank balances, and investments in securities.

Earnings per share

Profit for the period divided by the number of shares.

EBIT - operating profit

EBIT - operating profit is earnings after depreciation of acquisition-related intangible assets, financial items and tax, excluding items affecting comparability.

Equity/assets ratio

Equity divided by total assets.

FTE

Full Time Equivalent = average number of full-time employees.

Heads	Number of employees at the end of the period disregarding utilization.
Investments	Net of investments and disposals of tangible and intangible assets excluding acquisition-related investments
Items affecting comparability	Items affecting comparability are reported separately to illustrate the performance of underlying operations. Items affecting comparability include costs of advisory services in connection with acquisitions, costs resulting from strategic decisions and significant restructuring of operations. However, central government subsidies such as <i>Läxhjälp</i> , <i>Lärlönelyftet</i> and <i>Karriärtjänster</i> are not included in items affecting comparability, because they are expected to recur for several years, and are part of operating activities.
Margin	Profit for the period divided by total operating income
Net debt	Interest-bearing liabilities less cash and cash equivalents
Net debt (+) / Net cash (-)	Interest-bearing liabilities less cash and cash equivalents.
Number of shares	Number of shares as stated in the share register.
Operating capital	Current assets excluding cash and cash equivalents less operating liabilities.
Operating income	School voucher funding and social subsidies.
Other operating income	Revenues from Junior Club compensation for star teachers and other central government subsidies. For government subsidies see also the paragraph about revenue recognition in the annual report 2015/16, note 1, page 16.
Return on equity	Profit for the period divided by average equity (opening balance plus closing balance divided by two).
Revenue	School voucher funding and social subsidies.
Segment	IES reports geographical markets as operating segments.

About Internationella Engelska Skolan

Internationella Engelska Skolan, IES, is one of the leading free school operators in Sweden with some 21,400 students in 30 schools in the academic year 2016/17. IES operates schools for students in grades 1-12. Its main focus is grade 4-9, what is often called “middle school”. Within the compulsory school system in Sweden, IES is the leading independent actor, operating nine of the ten largest free schools. IES results on the national tests in grade 9 are far above average in Sweden.

Internationella Engelska Skolan was founded in 1993 and is in its 24th year of operation. It continues to be defined by three strong convictions, established by the founder, Mrs. Barbara Bergstrom:

- A safe and orderly environment, where teachers can teach and students learn.
- To command the English language—the key to the world.
- High academic expectations.

Up to half of the teaching in IES schools is performed in English, by native English speaking teachers. Over 700 teachers with

qualified foreign teaching degrees are currently teaching in IES schools. They are mainly recruited from Canada, UK, USA and South Africa.

IES has shown a strong and consistent growth for a number of years. Average growth during the last ten years is 19 % per year. Turnover during the latest concluded operational year, 2015/16, was 1 807 MSEK (growth of 17 % from previous year). As of 31 December 2016, there were approximately 133,000 applications in the waiting list to secure a place for the forthcoming year.

Internationella Engelska Skolan has been listed on Nasdaq Stockholm Mid Cap with the ticker ENG since the end of September 2016. The largest shareholders of IES are TA Associates of the US, which has close affiliations to leading universities and foundations in the US, and IES’s founder Barbara Bergström. Other major shareholders as of the end of January 2017 include Swedbank Robur funds, investment company Öresund, Norron Asset Management, the Third Swedish National Pension Fund and AMF Försäkring & Fonder (owned jointly by LO, The Swedish Trade Union Confederation and the Confederation of Swedish Enterprise).