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MCKINSEY & COMPANY, INC UNITED KINGDOM

UNAUDITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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MCKINSEY & COMPANY, INC UNITED KINGDOM

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MCKINSEY & COMPANY, INC UNITED KINGDOM

**ACCOUNTANT'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

Report to the directors on the presentation of the unaudited statutory financial statements of McKinsey & Company Inc, United Kingdom for the year ended 31 December 2018.

We have compiled the accompanying financial statements of McKinsey & Company, Inc United Kingdom for the year ended 31 December 2018 based on the information you have provided. These financial statements comprise the Statement of Financial Position, Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Directors of McKinsey & Company, Inc United Kingdom, as a body, in accordance with the terms of our engagement letter dated 19 September 2019. Our work has been undertaken solely to prepare for your approval the financial statements of McKinsey & Company, Inc United Kingdom and state those matters that we have agreed to state to the Board of Directors of McKinsey & Company, Inc United Kingdom, as a body, in this report in accordance with our engagement letter. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than McKinsey & Company, Inc United Kingdom and its Board of Directors as a body for our work or for this report.

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), Compilation Engagements.

We have applied our expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006. As a member firm of the Institute of Chartered Accountants in England and Wales, we are subject to its ethical and other professional requirements which are detailed at www.icaew.com.

These financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to us to compile these financial statements. Accordingly, we do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with Financial Reporting Standard 102.



Grant Thornton UK LLP
Chartered Accountants

Date 1 November 2019

MCKINSEY & COMPANY, INC UNITED KINGDOM

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 £	2017 £
Turnover	2a	739,646,895	691,505,136
Cost of sales	2b	(654,812,833)	(581,603,291)
Gross profit		84,834,062	109,901,845
Administrative expenses	2c	(112,108,641)	(106,823,484)
Operating (loss)/profit		(27,274,579)	3,078,361
Finance income/(expense)		127,280	(2,422)
Foreign Exchange Gain/(Loss)		456,912	(369,998)
(Loss)/profit before tax		(26,690,387)	2,705,941
Current and deferred tax	8	(2,807,221)	(2,903,320)
Loss for the financial year		(29,497,608)	(197,379)

There was no other comprehensive income for 2018 (2017:£NIL).

The notes on pages 5 to 12 form part of these financial statements.

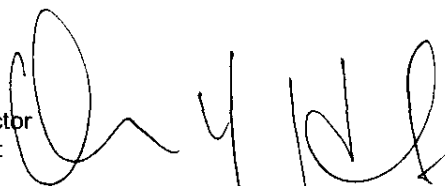
MCKINSEY & COMPANY, INC UNITED KINGDOM

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

	Note	2018 £	2017 £
Fixed assets			
Property, plant and equipment	3	1,358,597	4,023,459
Capital Work in Progress	4	10,043,018	1,864,437
		<u>11,401,615</u>	<u>5,887,896</u>
Current assets			
Accrued income		61,050,235	77,732,482
Trade and other receivables	5	136,245,156	121,447,032
Cash and cash equivalents		14,940,448	28,485,449
Deferred tax	7	1,237,446	2,585,320
		<u>213,473,285</u>	<u>230,250,283</u>
Trade and other payables	6	(231,203,645)	(212,969,316)
Net current (liabilities)/assets		<u>(17,730,360)</u>	<u>17,280,967</u>
Total assets less current liabilities		<u>(6,328,745)</u>	<u>23,168,863</u>
Net (liabilities)/assets		<u><u>(6,328,745)</u></u>	<u><u>23,168,863</u></u>
Capital and reserves			
Called up share capital		100	100
Capital reserve		4,390,487	4,390,487
Capital contribution		16,072,113	16,072,113
Profit and loss account		(26,791,445)	2,706,163
Shareholders' funds		<u><u>(6,328,745)</u></u>	<u><u>23,168,863</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

Director
Date:



17.10.19

The notes on pages 5 to 12 form part of these financial statements.

MCKINSEY & COMPANY, INC UNITED KINGDOM

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital	Capital redemption reserve	Capital contribution	Profit and loss account	Total equity
	£	£	£	£	£
At 1 January 2018	100	4,390,487	16,072,113	2,706,163	23,168,863
Comprehensive income for the year					
Loss for the year	-	-	-	(29,497,608)	(29,497,608)
At 31 December 2018	100	4,390,487	16,072,113	(26,791,445)	(6,328,745)

The notes on pages 5 to 12 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital	Capital redemption reserve	Capital contribution	Profit and loss account	Total equity
	£	£	£	£	£
At 1 January 2017	100	4,390,487	16,072,113	2,903,542	23,366,242
Comprehensive income for the year					
Profit for the year	-	-	-	(197,379)	(197,379)
At 31 December 2017	100	4,390,487	16,072,113	2,706,163	23,168,863

The notes on pages 5 to 12 form part of these financial statements.

MCKINSEY & COMPANY, INC UNITED KINGDOM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements of the McKinsey & Company, Inc. United Kingdom (the "branch") have been prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including adoption of Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and with Companies Act 2006, which have been applied consistently.

The branch has taken advantage of the exemption available to wholly-owned subsidiaries from preparing a cash flow statement. The entity is not required legally or otherwise to present audited financial statements.

The financial statements are prepared on a going concern basis under the historical cost convention.

1.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Cost includes the original purchase price of the asset together with the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided on a straight-line basis over the useful life. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment. The estimated useful life of property, plant and equipment are assessed as:

Leasehold improvements	Remaining term of lease
Furniture and equipment	3 to 10 years

1.3 Current tax

Taxation is based on the profits and income for the period as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior periods. Tax payable is calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Current taxation is recognized in the Statement of Comprehensive Income for the period, except to the extent that it is attributable to a gain or loss recognised outside the Statement of Comprehensive Income, in which case the current tax is recognised in the statement of total recognized gains and losses, or equity, as applicable.

1.4 Deferred tax

Deferred tax is recognized on timing differences arising between the recognition of gains and losses in the financial statements and their recognition in a tax computation. The tax rates used are the rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Full provision is made for deferred tax liabilities. Deferred tax assets are recognized to the extent that they are more likely than not to be regarded as recoverable against suitable taxable profits. Deferred tax is recognized in the Statement of Comprehensive Income for the period, except to the extent that it is attributable to a gain or loss recognised outside the Statement of Comprehensive Income, in which case the deferred tax is recognised in the statement of total recognized gains and losses, or equity, as applicable. The deferred tax balances are not discounted.

MCKINSEY & COMPANY, INC UNITED KINGDOM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Accounting policies (continued)

1.5 Accrued income

Accrued income values contracts in progress at the year-end including the relevant profit element. Any amounts received on account from clients for which services have not been rendered are included in creditors in accordance with the revenue recognition policy.

1.6 Pension

The Branch operates a defined contribution pension scheme for its employees. The amount charged to the Statement of Comprehensive Income represents the amount paid/payable for the year.

1.7 Turnover

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

The following criteria must also be met before revenue is recognized:

Rendering of services

Revenue from a contract to provide services is recognized in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

In relation to cases where, at the Statement of financial position date, the completion of contractual obligations is dependent on external factors (and thus outside the control of the branch), a decision is required whether revenue should be recognized. Where we consider that branch has performed under the contract, but consideration is contingent, revenue is recognized to the extent that branch considers probable that the economic benefits associated with the transaction will flow to the branch which could be reliably measured. The branch recognizes revenue on these cases based on the best estimates by reference to an average realisation rate for similar work undertaken historically. In other instances, the revenue is not recognized until the contractual obligation is completed.

1.8 Foreign currencies

Pounds Sterling is the functional currency for the branch. All assets and liabilities denominated in foreign currency are translated at year end exchange rates other than fixed assets that are denominated at the applicable historical rates. Revenue and expenses are translated at current monthly exchange rates except for depreciation/amortisation of fixed assets that are recorded at historical rates.

1.9 Leases

Rentals payable under operating leases are charged on a straight line basis over the lease term.

MCKINSEY & COMPANY, INC UNITED KINGDOM

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.10 Trade receivables

Short term trade receivables are measured at transaction price, less any impairment.

1.11 Trade payables

Short term trade payables are measured at transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2. Profit and loss

	2018	2017
	£	£
2a) Turnover		
Revenue from third parties	467,269,966	405,653,008
Revenue from related parties – consulting services	166,883,818	183,456,509
Revenue from related parties – support services	105,493,111	102,395,619
	739,646,895	691,505,136

	2018	2017
	£	£
2b) Cost of sales		
Personnel costs	338,818,492	304,323,770
Consulting services provided by related parties	180,559,707	149,476,718
Other expenses	135,434,634	127,802,803
	654,812,833	581,603,291

MCKINSEY & COMPANY, INC UNITED KINGDOM

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018 £	2017 £	
2c) Administrative expenses			
Support services provided by related parties	41,662,788	38,583,554	
Personnel costs	17,834,196	15,225,432	
Other expenses	24,362,591	22,412,124	
Property related costs	12,433,425	14,068,202	
Support services provided by third parties	8,857,350	8,228,715	
Training	3,939,505	4,084,260	
Depreciation	2,939,695	3,924,153	
Impairment of receivables	79,091	297,044	
	<u>112,108,641</u>	<u>106,823,484</u>	
3. Property, plant and equipment			
	Leasehold improvements £	Furniture & equipment £	Total £
Cost or valuation			
At 1 January 2018	21,332,102	17,470,318	38,802,420
Additions	270,987	162,176	433,163
At 31 December 2018	<u>21,603,089</u>	<u>17,632,494</u>	<u>39,235,583</u>
Depreciation			
At 1 January 2018	18,216,324	16,562,637	34,778,961
Charge for the year on owned assets	2,731,504	366,521	3,098,025
At 31 December 2018	<u>20,947,828</u>	<u>16,929,158</u>	<u>37,876,986</u>
Net book value			
At 31 December 2018	<u>655,261</u>	<u>703,336</u>	<u>1,358,597</u>
At 31 December 2017	3,115,778	907,681	4,023,459

MCKINSEY & COMPANY, INC UNITED KINGDOM

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

4. Capital Work in Progress

	2018	2017
	£	£
Due after more than one year		
Capital Work in Progress	10,043,018	1,864,437

5. Trade and other receivables

	2018	2017
	£	£
Due within one year		
Trade debtors	131,020,050	116,902,252
Other debtors	5,225,106	4,544,780
	136,245,156	121,447,032

6. Trade and other payables

	2018	2017
	£	£
Deferred billings	40,920,531	52,207,736
Trade payables	1,167,292	1,978,056
Amounts owed to group undertakings	22,243,901	6,394,430
Other taxes payables	50,624,712	47,154,099
Other payables	25,650,659	20,265,941
Accrued expenses	90,596,550	84,969,054
	231,203,645	212,969,316

7. Deferred tax

	2018	2014
	£	£
At beginning of year	2,585,320	2,897,258
(Credited) to profit or loss	(1,347,874)	(311,938)
At end of year	1,237,446	2,585,320

MCKINSEY & COMPANY, INC UNITED KINGDOM

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

7. Deferred tax (continued)

The deferred tax asset is made up as follows:

	2018 £	2017 £
At beginning of the year	2,585,320	2,897,258
Accelerated capital allowances	560,663	558,476
Provision for deferred payments to employees	(1,874,962)	227,130
Impact of change in corporate tax rate	(33,575)	(108,647)
Payments made to employees for DTA created in previous periods	-	(988,897)
	<u>1,237,446</u>	<u>2,585,320</u>

8. Taxation

	2018 £	2017 £
Corporation tax		
Current tax on profits for the year	1,808,583	2,532,081
Adjustments in respect of previous periods	(349,236)	59,301
Total current tax	<u>1,459,347</u>	<u>2,591,382</u>
Deferred tax		
Origination and reversal of timing differences	1,314,298	311,938
Changes to tax rates	33,576	-
Total deferred tax	<u>1,347,874</u>	<u>311,938</u>
Taxation on profit on ordinary activities	<u>2,807,221</u>	<u>2,903,320</u>

MCKINSEY & COMPANY, INC UNITED KINGDOM

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

8. Taxation (continued)

Factors affecting tax charge for the year

	2018 £	2017 £
(Loss)/profit on ordinary activities before tax	(26,690,387)	2,705,941
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 19.25%)	(5,071,173)	520,894
Effects of:		
Non-deductible expense	5,071,173	819,656
Impact of overseas taxes	1,808,583	1,666,334
Adjustments of prior years	(349,236)	59,301
Timing differences	-	(474,803)
Deferred tax	1,347,874	311,938
Total tax charge for the year	2,807,221	2,903,320

9. Employee Stock Option Plan

McKinsey and Company, Inc (the Firm) which is the parent company of the branch provides a share based payment plan (the Plan), to the eligible employees of the branch. Options awards are generally granted with an exercise price equal to the book value of the Firm's common stock at the date of grant. Options can be exercised after the third anniversary of the grant and expire in 30 days if not exercised.

The expenses related to these options is reflected as a component of personnel costs in the statement of comprehensive income. The related expense is measured as the difference between the exercise price and the book value per share as of the exercise date. The expense recognised in the financial statements for the year ended 31 December 2018 is £734,940 (2017: £1,068,307).

MCKINSEY & COMPANY, INC UNITED KINGDOM

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

10. Related party transactions and balances

	2018	2017
	£	£
Included in expenses		
Consulting services	150,381,903	122,471,553
Support services	114,571,532	104,863,990
Included in turnover		
Consulting services	135,145,297	148,726,279
Support services	141,140,691	142,044,218

All the related party transactions listed above comprise revenues generated/costs incurred from McKinsey & Company, Inc. and its affiliates.

Balance with related parties included in Financial Statements are as follows:

	2018	2017
	£	£
McKinsey & Company, Inc. and its subsidiaries/branches	(22,243,901)	(6,394,431)

Amount due from related party represents net balances arising from funds and services provided and received in the normal course of business and are interest free. The balances are payable at year end.

Amount for support services include reimbursement of expenses. Previous year numbers have accordingly been reinstated.