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MCKINSEY & COMPANY, INC UNITED KINGDOM

UNAUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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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 2017**

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 2017.

We have compiled the accompanying financial statements of McKinsey & Company, Inc United Kingdom for the year ended 31 December 2017 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.

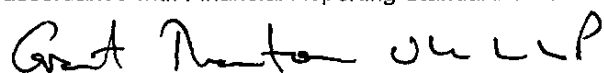
This report is made solely to the Directors of McKinsey & Company, Inc United Kingdom, as a body, in accordance with the terms of our engagement letter dated 26 April 2018. Our work has been undertaken solely to prepare for your approval the financial statements of McKinsey & Company, Inc United Kingdom 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 dated 24 April 2018. 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 28 September 2018.

MCKINSEY & COMPANY, INC UNITED KINGDOM

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £	2016 £
Turnover	2a	691,505,136	588,584,864
Cost of sales	2b	(581,603,291)	(530,562,480)
Gross profit		109,901,845	58,022,384
Administrative expenses	2c	(106,823,484)	(68,554,090)
Operating profit/(loss)		3,078,361	(10,531,706)
Finance (expense)/income		(2,422)	52,081
Foreign Exchange Gain/(Loss)		(369,998)	836,396
Profit/(loss) before tax		2,705,941	(9,643,229)
Current and deferred tax	7	(2,903,320)	(90,089)
Loss for the financial year		(197,379)	(9,733,318)

There was no other comprehensive income for 2017 (2016:£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 2017

	Note	2017 £	2016 £
Fixed assets			
Property, plant and equipment	3	4,023,459	7,431,588
		<u>4,023,459</u>	<u>7,431,588</u>
Current assets			
Accrued income		77,732,482	31,795,392
Debtors: amounts falling due after more than one year	4	1,864,437	-
Trade and other receivables	4	121,447,032	136,574,837
Cash and cash equivalents		28,485,449	15,575,870
Deferred tax	6	2,585,320	2,897,258
		<u>232,114,720</u>	<u>186,843,357</u>
Trade and other payables	5	(212,969,316)	(170,908,703)
Net current assets		<u>19,145,404</u>	<u>15,934,654</u>
Total assets less current liabilities		<u>23,168,863</u>	<u>23,366,242</u>
Net assets		<u>23,168,863</u>	<u>23,366,242</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		2,706,163	2,903,542
Shareholders' funds		<u>23,168,863</u>	<u>23,366,242</u>

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



P Boneystele
Director

Date: 27 September 2018

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 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					
Loss 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.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Called up share capital	Capital redemption reserve	Capital contribution	Profit and loss account	Total equity
	£	£	£	£	£
At 1 January 2015	100	4,390,487	16,072,113	12,636,860	33,099,560
Comprehensive income for the year					
Profit for the year	-	-	-	(9,733,318)	(9,733,318)
At 31 December 2016	100	4,390,487	16,072,113	2,903,542	23,366,242

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 2017**

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 2017

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 2017

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.

1.12 Prior period adjustment

The 2016 figures have been adjusted to increase both revenues and cost of sales by £42,561,870 due to paid by expenses. This has a nil impact on profit.

2. Profit and loss

	2017 £	2016 £
2a) Turnover		
Revenue from third parties	405,653,008	326,542,888
Revenue from related parties – consulting services	183,456,509	167,710,912
Revenue from related parties – support services	102,395,619	94,331,065
	<u>691,505,136</u>	<u>588,584,865</u>

	2017 £	2016 £
2b) Cost of sales		
Personnel costs	304,323,770	276,313,760
Consulting services provided by related parties	149,476,718	99,494,269
Other expenses	127,802,803	154,754,451
	<u>581,603,291</u>	<u>530,562,480</u>

MCKINSEY & COMPANY, INC UNITED KINGDOM

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 £	2016 £
2c) Administrative expenses		
Support services provided by related parties	38,583,554	31,585,167
Personnel costs	15,225,432	11,590,573
Other expenses	22,412,124	1,087,246
Property related costs	14,068,202	14,190,809
Support services provided by third parties	8,228,715	3,383,464
Training	4,084,260	3,525,936
Depreciation	3,924,153	2,985,281
Impairment of receivables	297,044	205,614
	<u>106,823,484</u>	<u>68,554,090</u>

3. Property, plant and equipment

	Leasehold improvements £	Furniture & equipment £	Total £
Cost or valuation			
At 1 January 2017	20,641,453	17,377,035	38,018,488
Additions	690,649	93,283	783,932
At 31 December 2017	<u>21,332,102</u>	<u>17,470,318</u>	<u>38,802,420</u>
Depreciation			
At 1 January 2017	14,540,499	16,046,401	30,586,900
Charge for the year on owned assets	3,675,825	516,236	4,192,061
At 31 December 2017	<u>18,216,324</u>	<u>16,562,637</u>	<u>34,778,961</u>
Net book value			
At 31 December 2017	<u>3,115,778</u>	<u>907,681</u>	<u>4,023,459</u>
At 31 December 2016	<u>6,100,954</u>	<u>1,330,634</u>	<u>7,431,588</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

4. Trade and other receivables

	2017 £	2016 £
Due after more than one year		
Amounts recoverable on L/T contracts	1,864,437	-
	<u>1,864,437</u>	<u>-</u>
Due within one year		
Trade debtors	116,902,252	74,660,096
Amounts owed by related parties	-	57,560,355
Other receivables	4,544,780	4,354,386
	<u>121,447,032</u>	<u>136,574,837</u>

5. Trade and other payables

	2017 £	2016 £
Deferred billings	52,207,736	41,012,145
Trade payables	1,978,056	301,676
Amounts owed to group undertakings	6,394,430	-
Other taxes payables	47,154,099	31,843,981
Other payables	20,265,941	26,986,014
Accrued expenses	84,969,054	70,764,887
	<u>212,969,316</u>	<u>170,908,703</u>

6. Deferred tax

	2017 £	2014 £
At beginning of year	2,897,258	147,326
(Credited)/Charged to profit or loss	(311,938)	2,749,932
At end of year	<u>2,585,320</u>	<u>2,897,258</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

6. Deferred tax (continued)

The deferred tax asset is made up as follows:

	2017 £	2016 £
At beginning of the year	2,897,258	147,326
Accelerated capital allowances	558,476	120,305
Provision for deferred payments to employees	227,130	2,629,627
Impact of change in corporate tax rate	(108,647)	-
Payments made to employees for DTA created in previous periods	(988,897)	-
	<u>2,585,320</u>	<u>2,897,258</u>

7. Taxation

	2017 £	2016 £
Corporation tax		
Current tax on profits for the year	2,532,081	2,840,021
Adjustments in respect of previous periods	59,301	-
Total current tax	<u>2,591,382</u>	<u>2,840,021</u>
Deferred tax		
Origination and reversal of timing differences	311,938	(2,749,932)
Total deferred tax	<u>311,938</u>	<u>(2,749,932)</u>
Taxation on profit on ordinary activities	<u>2,903,320</u>	<u>90,089</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

7. Taxation (continued)

Factors affecting tax charge for the year

	2017 £	2016 £
Profit/(loss) on ordinary activities before tax	<u>2,705,941</u>	<u>(9,643,229)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	520,894	(1,928,645)
Effects of:		
Non-deductible expense	819,656	491,557
Impact of overseas taxes	1,666,334	1,428,906
Adjustments of prior years	59,301	-
Timing differences	(474,803)	2,848,203
Deferred tax	311,938	(2,749,932)
Total tax charge for the year	<u>2,903,320</u>	<u>90,089</u>

8. 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 2017 is £1,068,307 (2016: £264,397).

The total income tax benefit related to the options granted recognised in the financial statements for the year ended 31 December 2017 was £205,649 (2016: £52,879).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

9. Related party transactions and balances

	2017 £	2016 £
Included in expenses		
Consulting services	122,471,553	80,021,678
Support services	70,596,585	54,943,179
Included in turnover		
Consulting services	148,726,279	141,456,864
Support services	85,724,373	80,865,951

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:

	2017 £	2016 £
McKinsey & Company, Inc. and its subsidiaries/branches	(6,394,431)	57,560,356

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 receivable at year end.

Key management personnel

The key management personnel in relation to the branch includes individuals who are not remunerated or employed by this entity. The aggregate remuneration of those who we consider comprise key management personnel that is paid by this entity is £125,960,490 (2016: £90,204,939). Note though that the key management personnel receive further remuneration from other Group entities, so the figure paid by this entity is not the aggregate remuneration received by these individuals from the Group.