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Unaudited Financial Statements McKinsey & Company, Inc United Kingdom

For the year ended 31 December 2015



Registered number: FCO 12665

McKinsey & Company, Inc United Kingdom

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McKinsey & Company, Inc United Kingdom

Accountant's Report

For the year ended 31 December 2015

Report to the directors on the preparation of the unaudited statutory financial statements of McKinsey & Company, Inc United Kingdom for the year ended 31 December 2015

We have compiled the accompanying financial statements of McKinsey & Company, Inc United Kingdom for the year ended 31 December 2015 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.

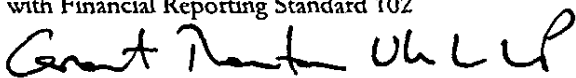
This report is made solely to the Directors of McKinsey & Company, Inc United Kingdom, as a body, in accordance with the terms of our engagement letter dated 31 August 2016. Our work has been undertaken solely to prepare for your approval the financial statements of McKinsey & Company, Inc United Kingdom 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 31 August 2016. 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 26 January 2017

Statement of Comprehensive Income

For the year ended 31 December 2015

	Note	2015 £	2014 £
Turnover	2a	444,613,810	418,181,033
Cost of sales	2b	(368,134,480)	(322,258,317)
Gross profit		<u>76,479,330</u>	<u>95,922,716</u>
Administrative expenses	2c	(75,017,907)	(86,839,997)
Operating profit		<u>1,461,423</u>	<u>9,082,719</u>
Finance income		54,447	28,472
Foreign Exchange Gain/(Loss)		155,442	(266,155)
Profit before tax		<u>1,671,312</u>	<u>8,845,036</u>
Current and deferred tax	7	(2,182,694)	(3,196,311)
(Loss)/profit for the year		<u>(511,382)</u>	<u>5,648,725</u>

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

McKinsey & Company, Inc United Kingdom


Registered number FCO 12665

Statement of Financial Position

As at 31 December 2015

	Note	£	2015 £	£	2014 £
Fixed assets					
Property, plant and equipment	3		7,379,294		9,448,415
			<u>7,379,294</u>		<u>9,448,415</u>
Current assets					
Accrued income		16,828,802		20,406,862	
Trade and other receivables	4	127,199,654		90,080,086	
Cash and cash equivalents		18,962,201		14,110,614	
Deferred tax		147,326		-	
		<u>163,137,983</u>		<u>124,597,562</u>	
Trade and other payables	5	(137,417,717)		(99,094,829)	
Net current assets			<u>25,720,266</u>		<u>25,502,733</u>
Total assets less current liabilities			<u>33,099,560</u>		<u>34,951,148</u>
Provisions for liabilities					
Deferred tax	6	-		(318,206)	
		<u>-</u>		<u>(318,206)</u>	
Net assets			<u><u>33,099,560</u></u>		<u><u>34,632,942</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			12,636,860		14,170,242
			<u>33,099,560</u>		<u>34,632,942</u>

The financial statements were approved and authorized for issue by the board and were signed on its behalf on 26 January 2017


P Bonesteele
 Director

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

Statement of Changes in Equity

For the year ended 31 December 2015

	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	14,170,242	34,632,942
Comprehensive income for the year					
Loss for the year	-	-	-	(511,382)	(511,382)
Gain/(Loss) on re-measurement of net defined benefit pension liability (Refer note 10)	-	-	-	(1,022,000)	(1,022,000)
At 31 December 2015	100	4,390,487	16,072,113	12,636,860	33,099,560

Statement of Changes in Equity

For the year ended 31 December 2014 (Restated)

	Called up share capital	Capital redemption reserve	Capital contribution	Profit and loss account	Total equity
	£	£	£	£	£
At 1 January 2014, (Refer note 10)	100	4,390,487	16,072,113	8,521,517	28,984,217
Comprehensive income for the year					
Profit for the year, (Refer note 10)	-	-	-	5,648,725	5,648,725
At 31 December 2014	100	4,390,487	16,072,113	14,170,242	34,632,942

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

Notes to the Financial Statements

For the year ended 31 December 2015

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 (see note 10)

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 recognised 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 recognized in the statement of total recognised gains and losses, or equity, as applicable. The deferred tax balances are not discounted.

Notes to the Financial Statements

For the year ended 31 December 2015

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

McKinsey UK 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

Turnover is recognized as services are rendered. The impact of revisions to engagement revenues are recognized in the period in which those changes become known.

If at the Statement of financial position date the completion of contractual obligations is dependent on external factors (and thus outside the control of the entity), then revenue is typically recognized when the contingent event occurs. However, in certain cases where similar work types are involved on a more regular basis, the contingent event is considered probable and there is historic evidence of these being settled, revenue is recognized as contract activity progresses.

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 against income on a straight line basis over the lease term.

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.

Notes to the Financial Statements

For the year ended 31 December 2015

2. Profit and loss

	2015 £	2014 £
2a) Turnover		
Revenue from third parties	235,931,796	248,421,724
Revenue from related parties – consulting services	157,083,528	125,153,120
Revenue from related parties – support services	51,598,486	44,606,189
	<u>444,613,810</u>	<u>418,181,033</u>

	2015 £	2014 £
2b) Cost of sales		
Personnel costs	238,694,793	208,548,643
Consulting services provided by related parties	83,498,456	72,367,164
Consulting and support services provided by third parties	17,847,795	14,084,737
Other expenses	28,093,436	27,257,773
	<u>368,134,480</u>	<u>322,258,317</u>

	2015 £	2014 £
2c) Administrative expenses		
Support services provided by related parties	20,434,864	18,815,978
Personnel costs	12,971,951	12,022,787
Other expenses	12,449,006	16,340,459
Property related costs	11,992,750	13,715,852
Support services provided by third parties	11,048,975	9,008,873
Training	2,841,177	2,887,439
Depreciation	2,597,147	2,466,233
Impairment of receivables	682,037	11,582,376
	<u>75,017,907</u>	<u>86,839,997</u>

Notes to the Financial Statements

For the year ended 31 December 2015

3. Property, plant and equipment

	Leasehold improvements £	Furniture & equipment £	Total £
Cost or valuation			
At 1 January 2015	17,542,322	16,870,937	34,413,259
Additions	273,692	254,334	528,026
At 31 December 2015	17,816,014	17,125,271	34,941,285
Depreciation			
At 1 January 2015	10,344,784	14,620,060	24,964,844
Charge for the period	1,821,071	776,076	2,597,147
At 31 December 2015	12,165,855	15,396,136	27,561,991
Net book value			
At 31 December 2015	5,650,159	1,729,135	7,379,294
At 31 December 2014	7,197,538	2,250,877	9,448,415

4. Trade and other receivables

	2015 £	2014 £
Trade receivables	50,149,285	37,396,584
Amounts owed by related parties	69,705,093	48,524,622
Other receivables	7,345,276	4,158,880
	127,199,654	90,080,086

Notes to the Financial Statements

For the year ended 31 December 2015

5. Trade and other payables

	2015 £	2014 £
Deferred billings	29,770,711	14,766,235
Trade payables	394,454	263,265
Other taxes payables	31,012,968	27,441,320
Other payables	12,822,020	13,624,196
Accrued expenses	63,417,564	42,999,813
	<u>137,417,717</u>	<u>99,094,829</u>

6. Deferred tax

	2015 £	2014 £
At beginning of year	(318,206)	(176,586)
Charged to the profit or loss	465,532	(141,620)
At end of year	<u>147,326</u>	<u>(318,206)</u>

The deferred taxation balance is made up as follows

	2015 £	2014 £
At beginning of the year	(318,206)	(176,586)
Adjustment of prior years	258,535	-
Accelerated capital allowances	90,632	(130,211)
Provision for deferred payments to employees	131,518	3,947
Change in tax rate	(15,153)	(15,356)
	<u>147,326</u>	<u>(318,206)</u>

Notes to the Financial Statements

For the year ended 31 December 2015

7. Taxation

	2015 £	2014 £
Corporation tax		
Current tax on profits for the year	2,648,226	3,054,691
Total current tax	<u>2,648,226</u>	<u>3,054,691</u>
Deferred tax		
Origination and reversal of timing differences	(465,532)	141,620
Total deferred tax	<u>(465,532)</u>	<u>141,620</u>
Taxation on profit on ordinary activities	<u>2,182,694</u>	<u>3,196,311</u>
Factors affecting tax charge for the year		

	2015 £	2014 £
Profit on ordinary activities before tax	<u>1,671,312</u>	<u>8,845,036</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014 - 21.5%)	338,384	1,901,683
Effects of:		
Non-deductible expense	180,598	370,988
Impact of overseas taxes	1,350,127	984,431
Adjustments of prior years	458,290	41,836
Timing differences	320,827	(129,272)
Other differences leading to an increase (decrease) in the tax charge	-	(114,975)
Deferred tax	(465,532)	141,620
Total tax charge for the year	<u>2,182,694</u>	<u>3,196,311</u>

Notes to the Financial Statements

For the year ended 31 December 2015

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 2015 is £864,115 (2014 £692,243).

The total income tax benefit related to the options granted recognised in the financial statements for the year ended 31 December 2015 was £174,983 (2014 £148,832).

9. Related party transactions and balances

Significant transactions with related parties for the period 1 January 2015 to 31 December 2015 included in the Statement of Comprehensive income are as follows.

	2015 £
Included in expenses	
Consulting services	69,134,560
Support services	38,836,890
Included in turnover	
Consulting services	135,098,975
Support services	<u>73,853,038</u>

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:

	2015 £
McKinsey & Company, Inc and its subsidiaries/branches	<u>69,705,093</u>

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.

Notes to the Financial Statements

For the year ended 31 December 2015

9. Related party transactions and balances (continued)

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 £86,998,228 (2014 - £72,614,704). 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.

10. Transition to FRS102

This is the first year that the branch has presented its results using the new UK GAAP reporting standard FRS 102 ("FRS 102"). The effective date of transition of FRS 102 is January 1, 2014.

The layout and names of the primary statements have changed on transition to FRS 102. The balance sheet has become "Statement of Financial Position", profit and loss account has been renamed to "Statement of Comprehensive Income". A Statement of Changes in Equity is now presented.

In preparing its opening balance sheet, the branch has adjusted the amounts reported in previous financial statements for the years 2013 and 2014. On transition, the profit for the year 2013 and 2014 has been increased by £1,728,780 and £534,764 respectively. This has resulted in the profit and loss reserve account increasing as follows:

1 January 2014 from £6,792,751 as reported in the prior year to £8,521,517 as reported in the Statement of Changes in Equity.

1 January 2015 from £11,906,712 as reported in the prior year to £14,170,242 as reported in the Statement of Changes in Equity.

i) Turnover: As an impact of transition, in case of revenue contracts where consideration is based on a contingent event that is outside the control of the branch and if there is historic evidence of these being settled, the revenue is recognized as contract activity progresses.

ii) Pension: As an impact of transition, gain / (loss) of re-measurement of the net defined benefit liability is now recognised in the financial statements and recorded in Profit and loss account under Statement of Changes in Equity.