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Partnership Registration Number OC307600

GENERATION INVESTMENT MANAGEMENT LLP

Report and Consolidated Financial Statements

31 December 2006

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GENERATION INVESTMENT MANAGEMENT LLP

Report and Consolidated Financial Statements

31 December 2006

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GENERATION INVESTMENT MANAGEMENT LLP

Designated Members and Professional Advisers

Designated members

D W Blood
Festivebright Limited
P M Harris

Other members

M Ferguson
A A Gore
P S Knight
C M le Duc
M R Nogales (appointed 1 January 2007)

Registered office

10 Upper Bank Street
London E14 5JJ

Business address

First Floor
4 Cork Street
London, W1S 3LG

Auditors

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
London SE1 9SY

GENERATION INVESTMENT MANAGEMENT LLP

The Members' Report

Year ended 31 December 2006

The members have pleasure in presenting their report and the Consolidated Financial Statements of Generation Investment Management LLP (the "LLP") and its subsidiaries (the "Group") for the year ended 31 December 2006

Principal activities

Generation Investment Management LLP is an independent, private, owner managed limited liability partnership. It was incorporated on 5 April 2004 under the name A&D Research and Capital Management LLP. On 20 August 2004 it changed its name to Generation Investment Management LLP.

The firm is dedicated to the principles of long-term investing, integrated sustainability research and client alignment. Its principal activity is the provision of investment management and advisory services to institutional clients and select individuals.

The Group is authorised and regulated, in the United Kingdom, by the Financial Services Authority and authorised, in the United States, by the US Securities Exchange Commission (SEC).

Results for the year and allocation to members

The loss for the period attributable to members was £4.8m (period to 31 December 2005: £3.4m) £0.6m (period to 31 December 2005: £0.4m) relating to the Employee Incentive Bonus Plan ("EIBP") was released from other reserves to members' capital.

The loss was in line with members' expectations as the business is in its start up phase and results are expected to improve during 2007. A business review is given on pages 4 and 5.

Designated members

The following designated members have held office since incorporation on 5 April 2004:

- D W Blood
- Festivebright Limited (24 May 2004)
- P M Harris (18 August 2004)

Statement of members' responsibilities

Company law as amended by the Limited Liability Partnerships Regulations 2001 requires the designated members to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the LLP and the Group and of the profit or loss of the Group for that year. In preparing those financial statements, the designated members are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the partnership will continue in business.

The designated members are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the LLP and of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985 as amended by the Limited Liability Partnerships Regulations 2001. They are also responsible for safeguarding the assets of the LLP and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

GENERATION INVESTMENT MANAGEMENT LLP

The Members' Report (continued)

Year ended 31 December 2006

These responsibilities are fulfilled by the members. The designated members confirm that the above requirements have been met in preparing the financial statements.

Policy with respect to members' drawings and the subscription and repayments of members' capital

Distribution of profits can be made at the discretion of the members' management committee, taking into account the anticipated needs of the LLP, and in proportion to their member shares.

In the event of the LLP being wound up, no member has agreed with other Members that he shall contribute in any way to the assets of the LLP in accordance with Section 74 of the Insolvency Act.

Financial risk management

Risk management is an inherent part of Generation's business activities. The Group's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of its major risks. The Group exercises oversight through the Risk Oversight Group ("ROG").

The Company's operations expose it to a variety of financial risks, the most significant of which are credit risk and operational risk.

Credit risk

The Group monitors exposures to all financial institutions. These exposures are subject to concentration limits and are reviewed by the ROG.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. To monitor and control operating risk, the Group maintains a system of policies and controls designed to provide a well-controlled operational environment, and to monitor and record any control failures. As part of the monitoring process, the LLP prepares an annual assurance report on the internal controls employed by Generation Investment Management LLP, which is reviewed by its auditors.

Statement of disclosure of information to auditors

As far as the members are aware, there is no relevant audit information of which the LLP's auditors are unaware. The members have taken all the steps that they ought to have taken as members in order to make themselves aware of any relevant audit information and to establish that the LLP's auditors are aware of that information.

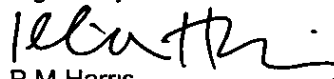
Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors will be proposed at the next members' meeting.

Registered office

10 Upper Bank Street
London E14 5JJ

Signed by order of the members



P M Harris
Designated member

Approved by the members on 30 April 2007

GENERATION INVESTMENT MANAGEMENT LLP

Business Review

Year ended 31 December 2006

Review

Generation Investment Management LLP ("Generation") is an independent, private, owner managed limited liability partnership established in April 2004. The firm is dedicated to the principle of long-term investing, integrated sustainability research and client alignment.

Generation has offices in London, United Kingdom and Washington DC, United States of America, and is comprised of an integrated team of 22, combining experts from the investment management and sustainability fields.

The firm was established by 6 founding Partners:

- The Hon. Al Gore is Chairman,
- David Blood, the former CEO of Goldman Sachs Asset Management is Managing Partner,
- Mark Ferguson, previously co-Head of Pan-European Research at Goldman Sachs Asset Management and a Global Portfolio Manager, is Chief Investment Officer,
- Peter Harris, previously head of International Operations for Goldman Sachs Asset Management, is Chief Operating Officer,
- Peter S. Knight, formerly Managing Director Met West Financial, lawyer, and Campaign Manager for President Clinton's successful re-election in 1996, is President of Generation U.S., and
- Colin le Duc, previously Director of Research for Sustainable Asset Management (Zurich) and an international strategy consultant for Arthur D. Little in London, is Head of Research.

Generation has appointed an Advisory Panel, which plays an important part in framing our long-term research agenda. It consists of global leaders and thinkers from capital markets, industry, sustainability, economics and geopolitical fields.

Capitalisation

Generation's capital was increased during the year by a further £2.0m. The current level of capital is sufficient to permit Generation to attract talented investment professionals and, to concentrate on developing and refining the investment process without chasing revenues, particularly in the early years of operation.

Risk oversight group

Generation has established a Risk Oversight Group ("ROG"), chaired by an independent non-executive officer, to, among other things, review the firm's internal controls, receive reports from the firm's external auditors and consider the draft financial statements prior to approval by the members. The ROG met five times during the year.

Employee incentive bonus plan

In April 2005, Generation allocated £1.5m to create an incentive bonus scheme for partners and employees. A further £0.1m was allocated during the year. These amounts have been invested in Generation's investment funds. Partners and employees have been granted awards representing an investment in units of the funds. The awards vest after three years, subject to the Plan Rules, and after five years the investments will be realised and cash payments made based upon the current redemption value of those investments.

GENERATION INVESTMENT MANAGEMENT LLP

Business Review (continued)

Year ended 31 December 2006

Investment philosophy

Generation believes investment results for long-only equity strategies are maximised by taking a long-term investment horizon because a majority of a company's value is determined by its long-run performance. Furthermore, sustainability issues can impact a company's ability to generate returns and therefore must be fully integrated with rigorous fundamental equity analysis to achieve optimal long-term investment results. A concentrated approach allows maximum leverage of an intense research effort.

Global equity investment strategy

Generation's global equity funds and portfolios invest in 30 to 50 companies, most of which are large capitalisation (Market capitalisation > \$3 billion) and based in countries in the developed world. We aim to buy high quality companies at sufficiently attractive prices that will deliver superior investment returns over the long-term. Sustainability research plays an integral role in forming our views on the quality of the business, the quality of management and valuation.

Investment vehicles

Generation currently manages three investment funds – a global equity Delaware registered company, funded on 1 February 2005, a global equity Dublin registered company, funded on 20 April 2005 and a special situations Delaware registered company funded on 22 May 2006. Generation also manages segregated accounts for large clients who do not wish to invest through the funds. At the year end the combined assets under management were approximately £252million.

New Partner

In January 2007, the members invited Miguel Nogales to accede to the membership of the LLP. Miguel joined the LLP in September 2004 and is a senior portfolio manager.

Outlook

Generation met its targets for 2006, which included strengthening its professional team and refining the investment process. During 2007 we plan to continue building on those achievements, and to steadily increase client investments into the funds and build our institutional separate account client business.

Generation foundation

5% of the firm's profitability will be allocated to the Generation Foundation. The Foundation will support global non-profit sustainability initiatives.

GENERATION INVESTMENT MANAGEMENT LLP

Our Values

Year ended 31 December 2006

Commitment to clients

Our first commitment is to provide exceptional service to our clients. The best way to achieve this is to deliver superior long-term performance.

Integrity

Integrity and honesty are the bedrock of our business. We demand the highest ethical standards in our work and in our personal lives.

Excellence and innovation

We aim for excellence in all that we do. We are committed to hard work, creativity and innovation in our effort to improve our investment processes and to provide the highest quality service to our clients.

Teamwork

We especially value teamwork. We consider each of the women and men with whom we work as individuals entitled to respect, dignity and recognition on the basis of merit.

Diversity

We want our team to reflect the diversity of the communities and cultures in which we operate in order to draw from the wisdom of many different backgrounds and perspectives.

Sustainability research

We are committed to an investment philosophy that integrates sustainability research with rigorous fundamental equity analysis. This is the best method of long term investing to protect the interests of our clients. We also believe that just as economic success must be sustainable, sustainability must include economic success.

Independence

We are committed to an independent employee managed partnership as an enduring business model.

Responsible citizenship

We recognise our responsibility to live in accordance with our values, to be responsible to the communities in which we live and work and to the world community as well. We endeavour to be good citizens, support charities, be mindful of ways to help our employees fulfil their family responsibilities and serve their communities, and protect our environment and natural resources.

GENERATION INVESTMENT MANAGEMENT LLP

Independent auditors' report to the members of Generation Investment Management LLP

Year ended 31 December 2006

We have audited the Group and Parent Company financial statements of Generation Investment Management LLP for the year ended 31 December 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and LLP Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of members and auditors

The members' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Members' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the members of the partnership in accordance with the Companies Act 1985 as applied to limited liability partnerships by the Limited Liability Partnerships Act 2000 and regulations made thereunder, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985, as applied to limited liability partnerships. We also report to you if, in our opinion, the limited liability partnership has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Members' Report and the Business Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the limited liability partnership's circumstances, consistently applied and adequately disclosed.

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

GENERATION INVESTMENT MANAGEMENT LLP

Independent auditors' report to the members of Generation Investment Management LLP *(continued)*

Year ended 31 December 2006

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group and parent company's affairs as at 31 December 2006 and of the group's loss and cash flows for the year then ended, and
- have been properly prepared in accordance with the provisions of the Limited Liability Partnerships Regulation 2001 made under the Limited Liability Partnerships Act 2000



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
30 April 2007

GENERATION INVESTMENT MANAGEMENT LLP

Consolidated Profit and Loss Account and Statement of Total Recognised Gains and Losses

Year 31 December 2006

	Note	Year ended 31 December 2006 £'000	1 May 2005 to 31 December 2005 £'000
Turnover	2	1,417	279
Other operating income	7, 8	217	320
		1,634	599
Administrative expenses	4	(6,233)	(3,899)
Operating loss		(4,599)	(3,300)
Profit on sale of investments		-	6
Interest receivable		188	141
Loss on ordinary activities	3	(4,411)	(3,153)
Loss for the financial year before members' remuneration and profit shares		(4,411)	(3,153)
Member's remuneration charged as an expense		(343)	(234)
Loss for the financial year available for division among members		(4,754)	(3,387)

Consolidated Statement of Total Recognised Gains and Losses

	Year ended 31 December 2006 £'000	1 May 2005 to 31 December 2005 £'000
Loss for the financial year available for division among members	(4,754)	(3,387)
Translation gains on consolidation of foreign subsidiaries	51	74
Total recognised gains and losses	(4,703)	(3,313)

All of the activities of the Group are classed as continuing. There is no difference between the loss available for division amongst the members and its historical cost equivalents.

As permitted by Section 230 Companies Act (as modified for application to LLPs) the LLP is exempt from presenting its own profit and loss account. The loss of the LLP for the financial year amounted to £4m (31 December 2005: £2.7m).

The notes on pages 14 – 22 form part of these financial statements.

GENERATION INVESTMENT MANAGEMENT LLP

Consolidated Balance Sheet

At 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Tangible assets	5	213	329
Investments	7	8	-
		<u>221</u>	<u>329</u>
Current assets			
Debtors	9	1,770	1,761
Investments	8	2,137	1,868
Cash at bank		<u>3,217</u>	<u>5,637</u>
		7,124	9,266
Creditors: Amounts falling due within one year	10	<u>(1,227)</u>	<u>(445)</u>
Net current assets		<u>5,897</u>	<u>8,821</u>
Total assets less current liabilities		6,118	9,150
Provisions for liabilities and charges	11	<u>(2,273)</u>	<u>(1,947)</u>
Net assets attributable to members		<u>3,845</u>	<u>7,203</u>
Represented by			
Equity			
Members' capital	16	3,106	6,032
Foreign exchange reserve	16	125	74
EIBP gift reserve	12, 16	<u>614</u>	<u>1,097</u>
		<u>3,845</u>	<u>7,203</u>
Total members' interests			
Loans and other debts due from members	16	-	-
Members' other interests	16	<u>3,845</u>	<u>7,203</u>
		<u>3,845</u>	<u>7,203</u>

The financial statements were approved by the designated members on 30 April 2007



D W Blood
Designated member



P M Harris
Designated member

The notes on pages 14 – 22 form part of these financial statements

GENERATION INVESTMENT MANAGEMENT LLP

Balance Sheet

At 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Tangible assets	6	184	296
Shares in subsidiary undertakings	7	1,822	1,557
		<u>2,006</u>	<u>1,853</u>
Current assets			
Debtors	9	1,855	1,387
Investments	8	1,600	1,373
Cash at bank		3,206	5,550
		<u>6,661</u>	<u>8,310</u>
Creditors: Amounts falling due within one year	10	<u>(1,164)</u>	<u>(313)</u>
Net current assets		<u>5,497</u>	<u>7,997</u>
Total assets less current liabilities		<u>7,503</u>	<u>9,850</u>
Provisions for liabilities and charges	11	<u>(1,736)</u>	<u>(1,453)</u>
Net assets attributable to members		<u>5,767</u>	<u>8,397</u>
Represented by:			
Equity			
Members' capital	16	4,921	7,203
EIBP gift reserve	12, 16	846	1,194
		<u>5,767</u>	<u>8,397</u>
Total members' interests			
Loans and other debts due to members	16	-	-
Members' other interests	16	5,767	8,397
		<u>5,767</u>	<u>8,397</u>

The financial statements were approved by the designated members on 30 April 2007



D W Blood
Designated member



P M Harris
Designated member

The notes on pages 14 – 22 form part of these financial statements

GENERATION INVESTMENT MANAGEMENT LLP

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Note	Year ended 31 December 2006 £'000	1 May 2005 to 31 December 2005 £'000
Net cash outflow from operating activities	(1)	(3,481)	(2,667)
Cash flows from investing activities			
Interest received		188	141
Capital expenditure			
Payments to acquire fixed assets		(8)	(31)
Receipts from sale of investments		-	231
Payments to acquire investments		(121)	(20)
Net cash outflow from investing activities		59	321
Cash flows from financing activities			
Capital contributions		1,991	2,000
Salaried remuneration of members		(343)	(234)
Capital repaid		(646)	(436)
Net cash inflow from financing activities		1,002	1,330
Net decrease in cash and cash equivalents	(2)	(2,420)	(1,016)
(1) Reconciliation of operating profit to net cash outflow from operating activities			
Operating loss		(4,599)	(3,300)
Depreciation		124	82
Unrealised gains on investments		(217)	(320)
Profit on disposal of investments		-	(6)
(Increase)/ decrease in debtors		(9)	450
Increase in creditors		782	84
Increase in provisions		326	320
Foreign exchange		112	23
		(3,481)	(2,667)

The notes on pages 14 – 21 form part of these financial statements

GENERATION INVESTMENT MANAGEMENT LLP

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2006

	Year ended 31 December 2006	1 May 2005 to 31 December 2005
	£'000	£'000
(2) Reconciliation of net cash flow to movements in net funds		
(Decrease) in cash in the year	<u>(2,420)</u>	<u>(1,016)</u>
Movement in net funds in the year	(2,420)	(1,016)
Net funds at beginning of year	<u>5,637</u>	<u>6,653</u>
Net funds at end of year	<u>3,217</u>	<u>5,637</u>

Analysis of changes in net funds

	1 January 2006 £'000	Cash flows £'000	31 December 2006 £'000
Net cash			
Cash in hand and at bank	<u>5,637</u>	<u>(2,420)</u>	<u>3,217</u>

The notes on pages 14– 21 form part of these financial statements

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements

Year ended 31 December 2006

1 Accounting policies

Basis of accounting

The consolidated financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the applicable accounting standards and the requirements of the Statement of Recommended Practice (the "SORP") "Accounting by Limited Liability Partnerships". The principal accounting policies are set out below

Consolidation

The consolidated financial statements incorporate the financial statements of the LLP and its US incorporated subsidiaries Generation Investment Management US LLP and Generation Services LLC. All significant inter-company accounts and transactions have been eliminated upon consolidation. As a consolidated Group profit and loss account is published, a separate profit and loss account for the parent company is omitted from the Group financial statements by virtue of section 230 of the Companies Act 1985.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Assets and liabilities of subsidiaries which have currencies of operation other than sterling are translated into sterling at the year end exchange rates. Profits and losses are translated at the average rate of exchange for the year. Exchange differences arising from the retranslation of the opening net assets of subsidiaries, which have currencies of operation other than sterling and any related loans are taken to reserves together with the differences arising when the profit and loss accounts are translated at average rates and compared with rates ruling at the year end. Other exchange differences are taken to the profit and loss account.

Segmental reporting

The whole of the Group's activities are related to the business of investment management. In the opinion of the members, the Group operates in two geographical and one business segment.

Turnover

The turnover shown in the profit and loss account represents amounts due for investment advisory services recognised on an accruals basis during the year, exclusive of Value Added Tax. Performance fees are recognised when they are receivable.

Interest receivable

Interest comprises interest on cash balances and short-term money market deposits and is accounted for on an accruals basis.

Income and expenditure

Income and expenditure are included on an accruals basis.

Pension arrangements

The Group does not operate its own pension scheme. The Group contributes on behalf of the employees to their chosen pension scheme plan. The charge against the profit represents the actual amount of the contribution payable to pension schemes in respect of the accounting year.

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2006

Operating leases

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis over the lease term

Taxation

Income tax payable on the LLP's profits is solely the personal liability of the individual members and consequently is not dealt with in these financial statements. Corporation tax arising in any subsidiary undertaking is included in the Group tax charge

Tangible fixed assets

Tangible fixed assets are stated at the lower of cost or valuation less depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Office equipment	-	33 1/3 % straight line per annum
Furniture and fittings	-	20 % straight line per annum

Shares in subsidiary undertakings

Shares in subsidiary undertakings are recorded at cost less any provision for diminution in value that is considered to be permanent

Current asset investments

Current asset investments are investments held other than for continuing use in the business. Marketable securities are stated at market value in accordance with market practice, and profits and losses arising from this revaluation are taken to the profit and loss account

Allocation of profits and drawings

A member's share in the profit or loss for the year is accounted for as an allocation of profits. To the extent that interim or final profit allocations exceed drawings then the excess profit is included in the balance sheet under loans and other debts due to members. Where drawings exceed the allocated profits then the excess is deducted from capital. Unallocated profits and losses are included in "other reserves" within members' other interests

2 Turnover

The turnover and loss are attributable to the principle activity of the Group

An analysis of turnover is given below

	Year ended 31 December 2006 £'000	1 May 2005 to 31 December 2005 £'000
United Kingdom	794	61
United States	623	218
	<hr/>	<hr/>
	1,417	279

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2006

3 Operating loss

Operating loss is stated after charging

	Year ended 31 December 2006 £'000	1 May 2005 to 31 December 2005 £'000
Staff pension contributions	246	174
Depreciation of tangible fixed assets	124	82
Auditors' remuneration		
- fees payable to company auditor for the audit of parent company and consolidated accounts	25	25
- the audit of company's subsidiaries pursuant to legislation	9	14
- non-Audit services	62	13
Operating lease costs – land and buildings	125	135
Foreign exchange	112	7

4 Employees and remuneration

The average monthly number of staff (excluding members – note 15) employed by the LLP during the financial year amounted to

	Year ended 31 December 2006 Number	1 May 2005 to 31 December 2005 Number
Number of administrative staff	16	14
The aggregate of payroll costs of staff were	£'000	£'000
Wages and salaries	2,648	1,524
Social security costs	285	160
Other pension costs	246	174
	3,179	1,858

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2006

5 Tangible fixed assets – the Group

	Plant & Machinery £'000	Office equipment £'000	TOTAL £'000
COST			
At 1 January 2006	264	234	498
Additions	-	8	8
At 31 December 2006	264	242	506
DEPRECIATION			
At 1 January 2006	74	95	169
Charge for the year	53	71	124
At 31 December 2006	127	166	293
NET BOOK VALUE			
At 31 December 2006	137	76	213
At 31 December 2005	190	139	329

6 Tangible fixed assets – the LLP

	Plant & Machinery £'000	Office equipment £'000	TOTAL £'000
COST			
At 1 January 2006	264	191	455
Additions	-	6	6
At 31 December 2006	264	197	461
DEPRECIATION			
At 1 January 2006	74	85	159
Charge for the year	53	65	118
At 31 December 2006	127	150	277
NET BOOK VALUE			
At 31 December 2006	137	47	184
At 31 December 2005	190	106	296

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2006

7 Fixed asset investments – the Group

<i>Investments in Generation funds</i>	2006 £'000	2005 £'000
Additions	1	-
Unrealised gain on investments	7	-
At end of year	8	-

Fixed asset investments – the LLP

<i>Shares in subsidiary undertakings</i>	2006 £'000	2005 £'000
COST		
At start of year	1,557	1,302
Additions	265	255
At end of year	1,822	1,557

The above represents the LLP's 100% investments in Generation Investment Management US LLP, whose principal activity is investment management and Generation Services LLC, whose principal activity is that of a services company. Both companies are incorporated in the USA.

8. Current asset investments – the Group

	2006 £'000	2005 £'000
COST		
At start of year	1,868	1,692
Additions	120	20
Disposals	-	(225)
Revaluation on currency translation	(61)	61
Unrealised gain on investments	210	320
At end of year	2,137	1,868

Current assets investments comprise investments on behalf of an Employee Incentive Bonus Plan, details of which are given in note 12. The market value of the investments at 31 December 2006 is £2.1m (31 December 2005: £1.9m).

Current asset investments – the LLP

	2006 £'000	2005 £'000
COST		
At start of year	1,373	1,105
Additions	120	-
Unrealised gain on investments	107	268
At end of year	1,600	1,373

Current asset investments comprise investments on behalf of an Employee Incentive Bonus Plan, details of which are given in note 12. The market value of the investments is at 31 December 2006 is £1.6m (31 December 2005: £1.4m).

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2006

9 Debtors

	2006		2005	
	The Group £'000	The LLP £'000	The Group £'000	The LLP £'000
VAT recoverable	59	59	49	49
Other debtors	175	508	373	338
Deferred award	776	607	1,266	927
Prepayments	760	681	73	73
	<u>1,770</u>	<u>1,855</u>	<u>1,761</u>	<u>1,387</u>

10 Creditors: Amounts falling due within one year

	2006		2005	
	The Group £'000	The LLP £'000	The Group £'000	The LLP £'000
Trade creditors	163	133	95	34
PAYE and social insurance	197	197	101	101
Other creditors	173	171	-	-
Accruals and deferred income	694	663	249	178
	<u>1,227</u>	<u>1,164</u>	<u>445</u>	<u>313</u>

11 Provisions for liabilities and charges

	31 December 2006	
	The Group £'000	The LLP £'000
Employee incentive bonus plan		
At 1 January 2006	1,947	1,453
Profit and loss account charge	<u>326</u>	<u>283</u>
At 31 December 2006	<u>2,273</u>	<u>1,736</u>

12. Employee incentive bonus plan (EIBP)

The plan is designed to permit the LLP to give certain employees and members an investment in units of the Generation IM Global Equity Funds. On the closure of the plan the units will be redeemed and payments will be made in respect of the value of the units at the time.

Generation provides two separate Employee Incentive Bonus Plan schemes

- For UK employees the LLP has created an Employee Benefit Trust in which certain UK employees will be beneficiaries. The Trust has made an investment in units of the Generation IM Global Equity Fund.
- For LLP members and US citizen employees the LLP has invested directly in the Generation IM Global Equity Fund.

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2006

Member and employee interests in the plan are set out in an award letter to participants. The award represents an award of units in Generation IM Global Equity Funds. The number of units comprised in an award depends on the member's or employee's level of seniority at the grant date.

The capital gifted to the Employee Incentive Bonus Plan by David Blood amounted to £1.6m.

Terms and conditions of the award are detailed in the Plan Rules. Subject to Plan Rules, the awards vest for members and employees after three years from the date of grant and after five years the units will be redeemed and cash payments will be made in respect of the value of the awards.

13 Related party transactions

The Group has established the Generation Foundation, a related party, to support global non-profit sustainability initiatives. Initial operating expenses of the Foundation amounting to £0.1m were met by the Group which will be reimbursed by the Foundation. The amount is outstanding at 31 December 2006 and is included in other debtors. No other transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8.

14 Controlling party

David Blood is the Managing Partner and has the majority interest in the capital of the LLP. However, the LLP is controlled jointly by the members.

15 Information in relation to members

	Year ended 31 December 2006	1 May 2005 to 31 December 2005
	Number	Number
Average number of members during the year	6	6
	£'000	£'000
One partner drew a salary amounting to	343	234
Loss for the year attributable to the member with the largest entitlement was	£'000	£'000
The Group	4,151	3,008
The LLP	3,507	2,454

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2006

16 Reconciliation of movement in members' interests for the year to 31 December 2006

a) Group

	Members' capital	Foreign exchange reserves	Other reserves	EIBP gift reserve	TOTAL	Loans & other debts due to members	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Members' interest							
At 1 January 2006	6,032	74	-	1,097	7,203	-	7,203
Capital introduced	1,991	-	-	-	1,991	-	1,991
Additional gift amount	(120)	-	-	120	-	-	-
Loss available for division	-	-	(4,754)	-	(4,754)	-	(4,754)
Foreign exchange on consolidation	-	51	-	-	51	-	51
EIBP gift payment	-	-	603	(603)	-	-	-
Members' interest after loss	7,903	125	(4,151)	614	4,491	-	4,491
Allocated loss	(4,151)	-	4,151	-	-	-	-
Drawings	(646)	-	-	-	(646)	-	(646)
At 31 December 2006	3,106	125	-	614	3,845	-	3,845

b) LLP

	Members' capital	Other reserves	EIBP gift reserve	TOTAL	Loans & other debts due to members	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Members' interest						
At 1 January 2006	7,203	-	1,194	8,397	-	8,397
Capital introduced	1,991	-	-	1,991	-	1,991
Additional gift amount	(120)	-	120	-	-	-
Loss available for division	-	(3,975)	-	(3,975)	-	(3,975)
EIBP gift payment	-	468	(468)	-	-	-
Members' interest after loss	9,074	(3,507)	846	6,413	-	6,413
Allocated loss	(3,507)	3,507	-	-	-	-
Drawings	(646)	-	-	(646)	-	(646)
At 31 December 2006	4,921	-	846	5,767	-	5,767

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2006

17 Commitments under operating leases

Annual commitments	The Group £'000	2006 The LLP £'000	The Group £'000	2005 The LLP £'000
Land and buildings				
Operating leases which expire				
Within 1 year	70	-	70	-
After 5 years	131	131	131	131
Other operating leases				
Operating leases which expire				
Within 1 year	18	18	-	-
Within 2 to 5 years	90	90	96	96

On 23 June 2004, the LLP entered into an agreement in respect of a lease for a new office in London. The lease expires on 23 June 2012. The rental payments are £0.1m per annum paid quarterly in advance. On 18 August 2004, the US LLP entered into an agreement in respect of a lease for office space in Washington, DC, USA. The lease expires in December 2007. The rental payments are £0.1m per annum paid monthly in advance.