

Partnership Registration Number OC307600

## **GENERATION INVESTMENT MANAGEMENT LLP**

Report and Consolidated Financial Statements

31 December 2007



# **GENERATION INVESTMENT MANAGEMENT LLP**

Report and Consolidated Financial Statements

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# GENERATION INVESTMENT MANAGEMENT LLP

Designated Members and Professional Advisers

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<b>Designated members:</b>	D W Blood Festivebright Limited P M Harris
<b>Other members:</b>	M Ferguson A A Gore P S Knight C M le Duc M R Nogales (appointed 1 January 2007)
<b>Registered office:</b>	10 Upper Bank Street London E14 5JJ
<b>Business address:</b>	First Floor 4 Cork Street London, W1S 3LG
<b>Auditors:</b>	PricewaterhouseCoopers LLP Hay's Galleria 1 Hay's Lane London SE1 2RD

# **GENERATION INVESTMENT MANAGEMENT LLP**

## **The Members' Report**

Year ended 31 December 2007

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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 2007

### **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 year attributable to members was £3.3m (year to 31 December 2006: £4.8m). £0.4m (year to 31 December 2006: £0.6m) 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 2008. 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 2007

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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**

Members are entitled to Guaranteed Profit Share (GPS) which are taken as drawings. The amount of GPS for each member is determined by the members' remuneration committee.

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. Additionally, any amounts due to members would rank after amounts due to other creditors.

## **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 Group's operations expose it to a variety of financial risks, the most significant of which are credit risk and operational risk. These are explored in more detail in the notes to the financial statements 16.

## **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.

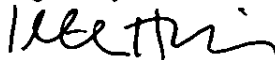
## **Auditors**

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 2008

# **GENERATION INVESTMENT MANAGEMENT LLP**

## **Business Review**

Year ended 31 December 2007

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### **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 27, 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.

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 the Global Equity Portfolio Manager. Miguel was previously jointly responsible for Mirabaud & Cie's flagship pan-European and Swiss Funds.

Generation has appointed an Advisory Board, 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 £3.0m. The current level of capital is sufficient to permit Generation to attract talented investment professionals, to concentrate on developing and refining the investment process and to meet regulatory requirements.

### **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 four times during the year.

# **GENERATION INVESTMENT MANAGEMENT LLP**

Business Review (continued)

Year ended 31 December 2007

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## **Employee incentive bonus plan**

To date Generation has allocated £1.8m (£0.2m was allocated during the year) to create an incentive bonus scheme for partners and employees. These amounts have been invested in Generation's investment funds. Partners and employees have been granted awards representing an investment in units (and in the case of the Generation IM Global Equity Fund LLC, "phantom" 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.

## **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 £883 million.

## **Outlook**

Generation met its targets for 2007, which included further strengthening its professional team and refining the investment process. During 2008 we plan to continue building on those achievements. Generation's target is to achieve profitability by the end of the year. Early in 2008, Generation plans to launch a new strategy which will be focused on companies providing solutions to the climate crisis. The increase in the team size and business activities has put a strain on current office facilities. As a result Generation has entered into an Agreement to Lease new office space which should be ready to move into during June 2008.

## **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 2007

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### **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 2007

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We have audited the Group and Partnership's financial statements of Generation Investment Management LLP for the year ended 31 December 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated and Partnership Balance Sheet, 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 Group's and 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 2007

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## 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's and Partnership's affairs as at 31 December 2007 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*

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
30 April 2008

# GENERATION INVESTMENT MANAGEMENT LLP

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

Year 31 December 2007

	Note	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
<b>Turnover</b>	2	4,064	1,417
Other operating income	7, 8	281	217
		4,345	1,634
Administrative expenses	4	(7,374)	(6,233)
<b>Operating loss</b>		(3,029)	(4,599)
Interest receivable		119	188
<b>Loss on ordinary activities</b>	3	(2,910)	(4,411)
<b>Loss for the financial year before members' remuneration and profit shares</b>		(2,910)	(4,411)
Member's remuneration charged as an expense		(343)	(343)
<b>Loss for the financial year available for division among members</b>		(3,253)	(4,754)

## Consolidated Statement of Total Recognised Gains and Losses

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
<b>Loss for the financial year available for division among members</b>	(3,253)	(4,754)
Translation (loss)/gains on consolidation of foreign subsidiaries	(67)	51
<b>Total recognised gains and losses</b>	(3,320)	(4,703)

All of the activities of the Group are classed as continuing

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 £2.8m (31 December 2006: £4m)

The notes on pages 14 – 24 form part of these financial statements

# GENERATION INVESTMENT MANAGEMENT LLP

## Consolidated Balance Sheet

At 31 December 2007

	Note	2007 £'000	2006 £'000
<b>Fixed assets</b>			
Tangible assets	5	129	213
Investments	7	13	8
		<u>142</u>	<u>221</u>
<b>Current assets</b>			
Debtors	9	2,426	1,770
Investments	8	2,603	2,137
Cash at bank		2,128	3,217
		<u>7,157</u>	<u>7,124</u>
<b>Creditors: Amounts falling due within one year</b>	10	<u>(1,911)</u>	<u>(1,227)</u>
<b>Net current assets</b>		<u>5,246</u>	<u>5,897</u>
<b>Total assets less current liabilities</b>		<u>5,388</u>	<u>6,118</u>
<b>Provisions for liabilities</b>	11	<u>(2,781)</u>	<u>(2,273)</u>
<b>Net assets attributable to members</b>		<u>2,607</u>	<u>3,845</u>
<b>Represented by:</b>			
<b>Equity</b>			
Members' capital	17	5,915	3,106
Other reserves	17	(3,757)	-
Foreign exchange reserve	17	58	125
EIBP gift reserve	12, 17	391	614
		<u>2,607</u>	<u>3,845</u>
<b>Total members' interests</b>			
Loans and other debts due from members	17	-	-
Members' other interests	17	2,607	3,845
		<u>2,607</u>	<u>3,845</u>

The financial statements were approved by the designated members on 30 April 2008



D W Blood  
Designated member



P M Harris  
Designated member

The notes on pages 14 – 24 form part of these financial statements

# GENERATION INVESTMENT MANAGEMENT LLP

## Partnership Balance Sheet

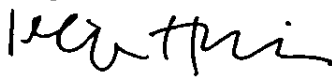
At 31 December 2007

	Note	2007 £'000	2006 £'000
<b>Fixed assets</b>			
Tangible assets	6	107	184
Shares in subsidiary undertakings	7	1,799	1,822
		<u>1,906</u>	<u>2,006</u>
<b>Current assets</b>			
Debtors	9	3,280	1,855
Investments	8	1,999	1,600
Cash at bank		1,876	3,206
		<u>7,155</u>	<u>6,661</u>
<b>Creditors: Amounts falling due within one year</b>	10	<u>(1,836)</u>	<u>(1,164)</u>
<b>Net current assets</b>		<u>5,319</u>	<u>5,497</u>
<b>Total assets less current liabilities</b>		<u>7,225</u>	<u>7,503</u>
<b>Provisions for liabilities</b>	11	<u>(2,177)</u>	<u>(1,736)</u>
<b>Net assets attributable to members</b>		<u>5,048</u>	<u>5,767</u>
<b>Represented by:</b>			
<b>Equity</b>			
Members' capital	17	7,730	4,921
Other reserves	17	(3,416)	-
EIBP gift reserve	12, 17	734	846
		<u>5,048</u>	<u>5,767</u>
<b>Total members' interests</b>			
Loans and other debts due to members	17	-	-
Members' other interests	17	5,048	5,767
		<u>5,048</u>	<u>5,767</u>

The financial statements were approved by the designated members on 30 April 2008



D W Blood  
Designated member



P M Harris  
Designated member

The notes on pages 14 – 24 form part of these financial statements

# GENERATION INVESTMENT MANAGEMENT LLP

## Consolidated Cash Flow Statement

Year ended 31 December 2007

	Note	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
<b>Net cash outflow from operating activities</b>	<b>(1)</b>	<b>(2,726)</b>	<b>(3,481)</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		119	188
<b>Capital expenditure and financial investment</b>			
Payments to acquire fixed assets		(26)	(8)
Payments to acquire investments		(195)	(121)
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(102)</b>	<b>59</b>
<b>Transactions with members</b>			
Capital contributions		3,004	1,991
Salaried remuneration of members		(343)	(343)
Drawings paid to members		(922)	(646)
<b>Net cash flow from transactions with members</b>		<b>1,739</b>	<b>1,002</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(2)</b>	<b>(1,089)</b>	<b>(2,420)</b>
<b>(1) Reconciliation of operating loss to net cash outflow from operating activities</b>			
Operating loss		(3,029)	(4,599)
Depreciation		110	124
Unrealised gains on investments		(281)	(217)
(Increase)/ decrease in debtors		(655)	(9)
Increase in creditors		684	782
Increase in provisions		508	326
Foreign exchange		(63)	112
<b>Net cash outflow from operating activities</b>		<b>(2,726)</b>	<b>(3,481)</b>

The notes on pages 14 – 24 form part of these financial statements

# GENERATION INVESTMENT MANAGEMENT LLP

## Consolidated Cash Flow Statement (continued)

Year ended 31 December 2007

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
<b>(2) Reconciliation of net cash flow to movements in net funds</b>		
(Decrease) in cash in the year	(1,089)	(2,420)
Movement in net funds in the year	(1,089)	(2,420)
<b>Net funds at beginning of year</b>	<b>3,217</b>	<b>5,637</b>
<b>Net funds at end of year</b>	<b>2,128</b>	<b>3,217</b>

### Analysis of changes in net funds

	1 January 2007 £'000	Cash flows £'000	31 December 2007 £'000
Net cash			
Cash in hand and at bank	3,217	(1,089)	2,128

The notes on pages 14– 24 form part of these financial statements

# GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements

Year ended 31 December 2007

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## 1. Accounting policies

### **Basis of accounting**

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed asset and current asset investments in accordance with the applicable accounting standards and the requirements of the Statements of Recommended Practice (the "SORP") "Accounting by Limited Liability Partnerships" issued in March 2006. 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 as permitted by 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 for investment advisory services are calculated on the relevant out-performance of a managed client account compared to an agreed benchmark index, usually the MSCI Developed World Total Return Net of Dividends Index. The fee is calculated as an amount equal to an agreed percentage of the amount, if any, by which the change in the value of an account exceeds the benchmark change, each in respect of the relevant period of review. In some cases the period of review is the initial three years from the date an account is first managed, thereafter annually on a rolling three year basis. 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.

### **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 2007

## Employee Incentive Benefit Plan (EIBP)

The Group has created an employee benefit plan for Group employees. Payments made to the plan in respect of retention bonuses for certain employees are recognised as assets and liabilities of the Group in accordance with UITF 32 and 38 until such assets vest, subject to plan rules, to the identified beneficiary.

## Operating leases

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis over the lease term. Benefits in the form of rent-free periods are treated as a reduction in the overall rent expense on the lease and, in accordance with UITF 28 "Operating Lease Incentives", are recognised on a straight line basis over the shorter of the lease term or the period up to the initial rental review date.

## 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.

## 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
Fittings and furnishings	-	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 2007 £'000	Year ended 31 December 2006 £'000
United Kingdom	2,820	794
United States	1,244	623
	<hr/> 4,064	<hr/> 1,417

# GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2007

## 3. Operating loss

Operating loss is stated after charging

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Depreciation of tangible fixed assets	110	124
Auditors' remuneration		
- fees payable to company auditor for the audit of parent company and consolidated accounts	29	25
- the audit of company's subsidiaries pursuant to legislation	13	9
- non-Audit services	108	62
Operating lease costs – land and buildings	168	125
Foreign exchange loss	9	112

## 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 2007 Number	Year ended 31 December 2006 Number
Number of administrative staff	18	16
The aggregate of payroll costs of staff were	£'000	£'000
Wages and salaries	2,746	2,648
Social security costs	309	285
Other pension costs	259	246
	3,314	3,179

# GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2007

## 5. Tangible fixed assets – the Group

	Fittings and furnishings £'000	Office equipment £'000	TOTAL £'000
<b>COST</b>			
At 1 January 2007	264	242	506
Additions	-	26	26
At 31 December 2007	264	268	532
<b>DEPRECIATION</b>			
At 1 January 2007	127	166	293
Charge for the year	53	57	110
At 31 December 2007	180	223	403
<b>NET BOOK VALUE</b>			
At 31 December 2007	84	45	129
At 31 December 2006	137	76	213

## 6. Tangible fixed assets – the LLP

	Fittings and furnishings £'000	Office equipment £'000	TOTAL £'000
<b>COST</b>			
At 1 January 2007	264	197	461
Additions	-	26	26
At 31 December 2007	264	223	487
<b>DEPRECIATION</b>			
At 1 January 2007	127	150	277
Charge for the year	53	50	103
At 31 December 2007	180	200	380
<b>NET BOOK VALUE</b>			
At 31 December 2007	84	23	107
At 31 December 2006	137	47	184

# GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2007

## 7. Fixed asset investments – the Group

<i>Investments in Generation funds</i>	2007 £'000	2006 £'000
At start of year	8	-
Additions	18	48
Disposals	(18)	(48)
Revaluation on currency translation	1	1
Unrealised gain on investments	4	7
At end of year	13	8

## Fixed asset investments – the LLP

<i>Shares in subsidiary undertakings</i>	2007 £'000	2006 £'000
COST		
At start of year	1,822	1,557
Revaluation on currency translation	(23)	-
Additions	-	265
At end of year	1,799	1,822

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

	2007 £'000	2006 £'000
COST		
At start of year	2,137	1,868
Additions	195	120
Revaluation on currency translation	(6)	(61)
Unrealised gain on investments	277	210
At end of year	2,603	2,137

## Current asset investments – the LLP

	2007 £'000	2006 £'000
COST		
At start of year	1,600	1,373
Additions	195	120
Unrealised gain on investments	204	107
At end of year	1,999	1,600

Current asset investments comprise investments on behalf of an Employee Incentive Bonus Plan, details of which are given in note 12. These assets held by the EIBP are restricted in their use by the Group and LLP. The market value of the investments at 31 December 2007 is: Group £2.6m, LLP £2.0m (31 December 2006: Group £2.1m, LLP £1.6m).

# GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2007

## 9. Debtors

	2007		2006	
	The Group £'000	The LLP £'000	The Group £'000	The LLP £'000
Trade debtors	57	57	-	-
VAT recoverable	108	108	59	59
Other debtors	154	1,448	175	508
Deferred award	442	402	776	607
Prepayments	1,665	1,265	760	681
	<u>2,426</u>	<u>3,280</u>	<u>1,770</u>	<u>1,855</u>

Trade debtors as at 31 December 2007 of £56,939 (31 December 2006 £0) are less than 3 months past due and are not considered impaired

## 10. Creditors: Amounts falling due within one year

	2007		2006	
	The Group £'000	The LLP £'000	The Group £'000	The LLP £'000
Trade creditors	243	191	163	133
PAYE and social insurance	71	71	197	197
Other creditors	384	384	173	171
Accruals and deferred income	1,213	1,190	694	663
	<u>1,911</u>	<u>1,836</u>	<u>1,227</u>	<u>1,164</u>

## 11. Provisions for liabilities

	31 December 2007	
	The Group £'000	The LLP £'000
Employee incentive bonus plan		
At 1 January 2007	2,273	1,736
Profit and loss account charge	508	441
At 31 December 2007	<u>2,781</u>	<u>2,177</u>

Provisions for liabilities include amounts due to employees by the EIBP of £2.6m and National Insurance on the awards under the EIBP of £178,000

## 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.

# GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2007

- For LLP members and US citizen employees the LLP has invested directly in the Generation IM Global Equity Fund

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 £1.8m.

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 is the investment manager of Generation IM Global Equity Fund LLC, Generation IM PLC, and its sub fund Generation IM Global Equity Fund and the Generation IM Global ex-US Equity Fund LLC. Group members, David Blood, Peter Harris and Peter Knight are directors of Generation IM PLC. Peter Knight is the Organisational Member of Generation IM Global Equity Fund LLC and Generation IM Global ex-US Equity Fund LLC.

The Group holds 13,994,134 (2006: 11,391,948) shares in Generation IM Global Equity Fund, along with 11,513,814 (2006: 11,513,814) shares held by Halifax EES Trustees International Ltd (as trustees for the Group's EIBP) in respect of certain UK members and employees, and has interests amounting to £0.6m (2006: £0.5m) invested in Generation IM Global Equity Fund LLC on behalf of certain US members and employees, in connection with the Group's EIBP (see note 12).

As investment manager, the Group has earned income during the year from related parties as follows:

	Total Income for		Accrued Income as at	
	Year ended 31 December 2007	Year ended 31 December 2006	31 December 2007	31 December 2006
	£'000	£'000	£'000	£'000
Generation IM Global Equity Fund	2,340	655	905	281
Generation IM Global Equity Fund LLC	754	513	252	145
Generation IM Global ex-US Equity Fund LLC	51	15	15	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.

# GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2007

## 15. Information in relation to members

	Year ended 31 December 2007	Year ended 31 December 2006
	Number	Number
Average number of members during the year	7	6
	£'000	£'000
One partner drew a salary amounting to	343	343
Loss for the year attributable to the member with the largest entitlement was	£'000	£'000
The Group	2,835	4,151
The LLP	2,494	3,507

## 16 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 Group's operations expose it to a variety of financial risks: market risk (including price risk, cash flow interest rate risk and foreign exchange risk), credit risk, liquidity risk and operational risk.

### Market risk

#### I Price risk

Investments in the Funds made by the Group for the purposes of the EIBP are held solely as investments to fund payments to employees on the maturity of the EIBP. The Group has made no commitment as to the value of the investments at pay out. Such assets are held at fair value through profit or loss.

Investment in the Generation IM Global Equity Fund LLC and the Generation IM Global ex-US Equity Fund LLC made to seed the Funds and establish capital accounts will be redeemed when the fund grows in size or when the Funds are fully redeemed. These assets are held at fair value through profit or loss.

#### II Interest rate risk

The Group holds cash at banks and on deposit with banks and other financial institutions. Interest on these balances is based upon fixed rates and floating rates. The Group monitors its exposure to interest rate movements and may decide to adjust balances between deposits on fixed or floating rates. The Group does not rely on interest from banks for operating purposes.

# GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2007

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## 16. Financial risk management (continued)

### *III Foreign exchange risk*

The Group is exposed to foreign exchange risk as the bulk of its liabilities are in sterling but management and performance fees are predominately calculated and paid in foreign currencies. The Group monitors its exposure to currency risk and if appropriate would protect the value of future management and performance fees by buying forward currency contracts. Exposure to foreign exchange risk in connection with management and performance fees was not sufficiently material to warrant the use of such instruments.

### *Credit risk*

Credit risk arises from cash and deposits with banks and financial institutions, as well as credit exposure to clients, including outstanding receivables and committed transactions.

The Group monitors exposures to all financial institutions. These exposures are subject to review by the ROG.

The Group has two main types of receivables, management and performance fees and settlement due from investors in the Funds and separate accounts. For management and performance fees receivables, the Group proactively manages the billing process to ensure invoices are sent out on a timely basis and payment is monitored and chased up to ensure timely receipt. The quality of clients and their ability to honour commitments is considered during the client take-on process.

During the year there have been no losses due to the non-payment of receivables or the failure of clients to meet fund commitments and the Group does not expect any losses from the credit counterparties held as at the balance sheet date.

### *Liquidity risk*

Prudent risk management requires the maintenance of sufficient cash balances to ensure the operational expenses of the Group can be met. The Group monitors rolling forecasts of the liquidity reserves on the basis of expected cash flow.

### *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. In addition the Group employs external Compliance Consultants to monitor the Groups regulatory compliance.

### *Capital Risk*

The Group's objective when managing capital is to ensure the Group meets its regulatory capital requirements and its ability to continue as a going concern and to maintain an optimal structure to reduce the cost of capital.

The Capital Partner has an investment in the Generation IM Global Equity Fund LLC which is available to draw down to meet current and future capital commitments of the partnership.



# GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2007

## 17. Reconciliation of movement in members' interests for the year to 31 December 2007

### a) Group

	Members' capital	Foreign exchange reserves	EIBP gift reserve	Other reserves	TOTAL	Loans & other debts due to members	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Members' interest At 1 January 2007</b>	3,106	125	614	-	3,845	-	3,845
Loss for the financial year available for division among members	-	-	-	(3,253)	(3,253)	-	(3,253)
<b>Members' interest after loss for the year</b>	3,106	125	614	(3,253)	592	-	592
Foreign exchange on loss	-	(67)	-	-	(67)	-	(67)
Capital introduced	2,809	-	-	-	2,809	-	2,809
Additional gift amount	-	-	195	-	195	-	195
EIBP gift expense	-	-	(418)	418	-	-	-
Drawings	-	-	-	-	-	(922)	(922)
Transfer of excess drawings	-	-	-	(922)	(922)	922	-
<b>Members' interest at 31 December 2007</b>	5,915	58	391	(3,757)	2,607	-	2,607

### b) LLP

	Members' capital	EIBP gift reserve	Other reserves	TOTAL	Loans & other debts due to members	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Members' interest At 1 January 2007</b>	4,921	846	-	5,767	-	5,767
Loss for the financial year available for division among members	-	-	(2,801)	(2,801)	-	(2,801)
<b>Members' interest after loss for the year</b>	4,921	846	(2,801)	2,966	-	2,966
Capital introduced	2,809	-	-	2,809	-	2,809
Additional gift amount	-	195	-	195	-	195
EIBP gift expense	-	(307)	307	-	-	-
Drawings	-	-	-	-	(922)	(922)
Transfer of excess drawings	-	-	(922)	(922)	922	-
<b>Members' interest at 31 December 2007</b>	7,730	734	(3,416)	5,048	-	5,048

# GENERATION INVESTMENT MANAGEMENT LLP

Notes to the financial statements (continued)

Year ended 31 December 2007

## 18. Commitments under operating leases

Annual commitments	2007		2006	
	The Group £'000	The LLP £'000	The Group £'000	The LLP £'000
<b>Land and buildings</b>				
Operating leases which expire				
Within 1 year	76	-	70	-
Within 2 to 5 years	231	231	-	-
After 5 years	-	-	131	131
<b>Other operating leases</b>				
Operating leases which expire				
Within 1 year	82	47	18	18
Within 2 to 5 years	31	10	90	90

On 23 June 2004, the LLP entered into an agreement in respect of a lease for an office in London. The lease expires on 23 June 2012. Following a rent review on 23 June 2007, the rental payments are £0.2m per annum paid quarterly in advance.

On 17 December 2007 the LLP entered into an agreement to lease in respect of a new office in London. The lease became effective on practical completion of the property, 15 April 2008. The lease expires on 15 April 2018. The rental payments will be £0.8m per annum and will start from 15 January 2009.

The LLP is in negotiations to assign the existing lease to coincide with the move to the new office.

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 expired in December 2007. The rental payments are £0.1m per annum paid monthly in advance. The Washington D.C. lease was extended to May 2008.

A new lease for temporary office space in New York City ("NYC") was signed on 15 April 2008 at a cost of £6,445 per month. This lease will commence on the 15 May 2008 and terminate when the fit-out of the permanent space, also in NYC, is complete.

The lease for the permanent space was also signed on 15 April 2008 and is for a term of 10 years from Commencement Date which is currently estimated to be 1 January 2009. The rent will be £0.5m pa with a review at the end of year 5.