

Partnership Registration Number: OC307600

**GENERATION INVESTMENT MANAGEMENT LLP**

**Consolidated Financial Statements**

**30 APRIL 2005**



# **GENERATION INVESTMENT MANAGEMENT LLP**

## **Financial Statements**

**Period ended 30 April 2005**

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# **GENERATION INVESTMENT MANAGEMENT LLP**

## **Designated Members and Professional Advisers**

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**Designated members:** D W Blood  
Festivebright Limited  
P M Harris

**Other members:** M Ferguson  
A A Gore  
P S Knight  
C M Le Duc

**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**

### **Period ended 30 April 2005**

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The members have pleasure in presenting their report and the financial statements of Generation Investment Management LLP (the "LLP") and its subsidiaries for the period ended 30 April 2005.

#### **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.

During this period the firm was largely focused on establishing its investment process and controls, but since February 2005 has provided sub-advisory services and investment management to two investment funds.

The group is authorized and regulated, in the United Kingdom, by the Financial Services Authority from the 26 October 2004 and authorized, in the United States, by the US Securities Exchange Commission (SEC) from 22 October 2004.

#### **Results for the period and allocation to members**

The loss for the period attributable to members was £2,517,805.

The loss was in line with members' expectations as the business is in its start up phase and expect the results to improve during 2006. 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 (appointed 5 April 2004)
- Festivebright Limited (appointed 24 April 2005)
- P M Harris (appointed 16 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 period which give a true and fair view of the state of affairs of the LLP and of the profit or loss of the LLP for that period. 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.

# GENERATION INVESTMENT MANAGEMENT LLP

## The Members' Report (continued)

Period ended 30 April 2005.

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The designated members confirm that the above requirements have been met in preparing the financial statements.

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 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Policy with respect to member's drawings and the subscription and repayments of member's capital**

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

Each member has contributed or shall contribute to the capital of the LLP certain sums as an initial capital contribution in the amount which is agreed upon their admission to the LLP.

*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.*

### **Auditors**

PricewaterhouseCoopers LLP were appointed as the LLP's auditors on 17th June 2004 and have indicated their willingness to continue in office. A resolution concerning their reappointment with the LLP 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 31<sup>st</sup> August 2005

# **GENERATION INVESTMENT MANAGEMENT LLP**

## **Business Review**

**Period ended 30 April 2005**

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### **Review**

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

Generation opened offices in London, United Kingdom and Washington DC, United States of America, and is comprised of an integrated team of 20, combining experts from the investment management and sustainability industries.

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's 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.

### **Capitalization**

Generation has been initially capitalized with £12 million. This level of capital is sufficient to permit Generation to attract talented investment professionals and, to focus on developing and refining the investment process without chasing revenues, particularly in the early years of operation.

### **Employee incentive bonus plan**

During the year Generation allocated £1.5m to create an incentive bonus scheme for partners and employees. This amount has been invested in the Generation 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 units are redeemed and cash payments will be made based upon the current value of the investments.

# **GENERATION INVESTMENT MANAGEMENT LLP**

## **Business Review (continued)**

**Period ended 30 April 2005**

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### **Investment philosophy**

Investment results for long only equity strategies are maximized by taking a long-term investment horizon. Sustainability issues can impact a company's ability to generate returns and therefore must be fully integrated with rigorous fundamental equity analysis. 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. Sustainability research plays an integral role in forming our views on the quality of the business, the quality of management and valuation.

### **Investment vehicles**

During the financial year Generation launched two investment funds – a Delaware registered company, funded on 1 February 2004 and a Dublin registered company, funded on 20 April 2004. At the year end the combined assets under management were around \$40million. The funds have quarterly liquidity and are open to certain qualified individuals and institutions.

Institutional investors with mandates in excess of \$40million will be offered separately managed accounts.

### **Outlook**

Generation met its targets for 2004/05 culminating with the launch of the two investment funds. During 2005/06 we plan to continue building on those achievements, strengthening the investment team and the investment process. We hope to steadily increase the client investment into the funds and attract our first institutional separate account clients.

### **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**

**Period ended 30 April 2005**

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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 recognize 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**

**Period ended 30 April 2005**

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We have audited the financial statements which comprise the profit and loss account, the group balance sheet, the company balance sheet, group cash flow statement and the related notes.

### **Respective responsibilities of members and auditors**

The members' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the partnership's members as a body in accordance with section 235 of the Companies Act 1985 as it applies to the partnership in accordance with the Limited Liability Partnerships Act 2000 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 Limited Liability Partnerships Regulations 2001 made under the Limited Liability Partnerships Act 2000. We also report to you if, in our opinion, the Members' Report is not consistent with the financial statements, the partnership has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding members' remuneration is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with auditing standards 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 judgements made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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)*

Period ended 30 April 2005

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### Opinion

In our opinion the financial statements give a true and fair view of the state of the group and of the partnership's affairs at 30 April 2005 and of the group's loss and cash flows for the period then ended and have been properly prepared in accordance with the provisions of the Limited Liability Partnerships Regulations 2001 made under the Limited Liability Partnerships Act 2000.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London

31<sup>st</sup> August 2005

# GENERATION INVESTMENT MANAGEMENT LLP

## Consolidated Profit and Loss Account

Period from 5 April 2004 to 30 April 2005

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	Note	2005 £
Turnover	2	42,255
Administrative expenses		(2,767,391)
Operating loss	3	(2,725,136)
Bank interest receivable		440,556
Loss on ordinary activities before taxation		(2,284,580)
Loss for the financial period before member's remuneration and profit shares		(2,284,580)
Salaried remuneration of members	15	(233,225)
Loss for the financial period available for division among members	16	(2,517,805)

All of the activities of the group are classed as continuing.

The group has no recognised gains or losses other than the results for the period as set out above.

There is no difference between the loss available for division amongst the members and its historical cost equivalents.

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

# GENERATION INVESTMENT MANAGEMENT LLP

## Consolidated Balance Sheet

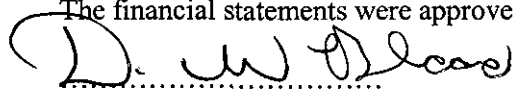
Period ended 30 April 2005

		2005 £
<b>Fixed assets</b>		
Tangible assets	5	383,900
<b>Current assets</b>		
Debtors	9	2,210,615
Investments	7	1,691,820
Cash at bank		6,653,156
		<u>10,555,591</u>
<b>Creditors: Amounts falling due within one year</b>	10	<u>(360,755)</u>
<b>Net current assets</b>		<u>10,194,836</u>
<b>Total assets less current liabilities</b>		<u>10,578,736</u>
<b>Provisions for liabilities and charges</b>	11	<u>(1,627,126)</u>
<b>Net assets</b>		<u><u>8,951,610</u></u>
<b>Members' other interests</b>		
Members' capital	16	7,475,552
Other reserves	16	1,476,058
		<u>8,951,610</u>
<b>Total members' interests</b>		
Loans and other debts due to members	16	-
Members' other interests	16	8,951,610
		<u><u>8,951,610</u></u>

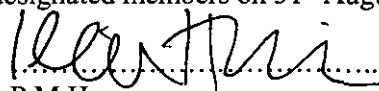
The members acknowledge their responsibility for:

- i) ensuring that the LLP keeps proper accounting records which comply with section 221 of the Act; and
- ii) preparing financial statements which give a true and fair view of the state of affairs of the LLP as at the end of the financial period in accordance with the requirements of section 226, and which otherwise comply with the requirements of the Act relating to financial statements, so far as applicable to the LLP.

The financial statements were approved by the designated members on 31<sup>st</sup> August 2005



D W Blood  
Designated member



P M Harris  
Designated member

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

# GENERATION INVESTMENT MANAGEMENT LLP

## Balance Sheet

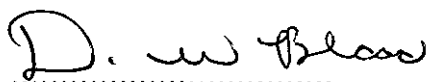
Period ended 30 April 2005

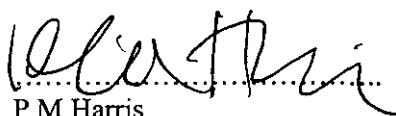
		2005
<b>Fixed assets</b>		£
Tangible assets	6	355,495
<b>Current assets</b>		
Debtors	9	1,786,802
Investments	8	2,407,001
Cash at bank		6,567,379
		10,761,182
<b>Creditors: Amounts falling due within one year</b>	10	(310,674)
<b>Net current assets</b>		10,450,508
<b>Total assets less current liabilities</b>		10,806,003
<b>Provisions for liabilities and charges</b>	11	(1,236,390)
<b>Net assets</b>		9,569,613
<b>Members' other interests</b>		
Members' capital	16	8,092,695
Other reserves	16	1,476,918
		9,569,613
<b>Total members' interests</b>		
Loans and other debts due to members	15	-
Members' other interests	16	9,569,613
		9,569,613

The members acknowledge their responsibility for:

- iii) ensuring that the LLP keeps proper accounting records which comply with section 221 of the Act; and
- iv) preparing financial statements which give a true and fair view of the state of affairs of the LLP as at the end of the financial period in accordance with the requirements of section 226, and which otherwise comply with the requirements of the Act relating to financial statements, so far as applicable to the LLP.

The financial statements were approved by the designated members on 31<sup>st</sup> August 2005

  
D W Blood  
Designated member

  
P M Harris  
Designated member

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

# GENERATION INVESTMENT MANAGEMENT LLP

## Consolidated Cash Flow Statement

Period ended 30 April 2005

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	2005 £
<b>Net cash outflow from operating activities</b>	<b>(2,859,924)</b>
<b>Returns on investments and servicing of finance</b>	
Interest received	440,556
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>440,556</b>
<b>Taxation</b>	-
<b>Capital expenditure</b>	
Payments to acquire tangible fixed assets	(471,846)
Payments to acquire investments	(1,691,820)
<b>Net cash outflow from capital expenditure</b>	<b>(2,163,666)</b>
<b>Cash outflow before financing</b>	<b>(4,583,034)</b>
<b>Financing</b>	
Capital introduction	12,000,000
Salaried remuneration of members	(233,225)
Drawings	(530,585)
<b>Net cash inflow from financing</b>	<b>11,236,190</b>
<b>Increase in cash</b>	<b><u>6,653,156</u></b>

### Reconciliation of operating profit to net cash outflow from operating activities

	2005 £
Operating loss	(2,725,136)
Depreciation	87,946
Increase in debtors	(2,210,615)
Increase in creditors	360,755
Increase in provisions	1,627,126
<b>Net cash outflow from operating activities</b>	<b><u>(2,859,924)</u></b>

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

# GENERATION INVESTMENT MANAGEMENT LLP

## Consolidated Cash Flow Statement (Continued)

Period ended 30 April 2005

### Reconciliation of net cash flow to movement in net funds

	2005 £
Increase in cash in the period	6,653,156
Movement in net funds in the period	6,653,156
Net funds at 5 April 2004	—
Net funds at 30 April 2005	6,653,156

### Analysis of changes in net funds

	At 5 April 2004 £	Cash flows £	At 30 April 2005 £
Net cash:			
Cash in hand and at bank	—	6,653,156	6,653,156
Net funds	—	6,653,156	6,653,156

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

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the financial statements

Period ended 30 April 2005

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### 1. Accounting policies

#### Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention and comply with the Statement of Recommended Practice on Accounting by Limited Liability Partnerships. The principal accounting policies are set out below:

#### Turnover

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

#### Interest income

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

#### Income and expenditure

Income and expenditure are included on an accruals basis.

#### 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.

#### Fixed assets

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

#### 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.

#### Taxation

In accordance with the statement of recommended practice on accounting by Limited Liability Partnerships no taxation is required to be disclosed.

#### Pensions

The group contributes on behalf of the employees to their chosen pension scheme plan. The group does not operate its own pension scheme.



# **GENERATION INVESTMENT MANAGEMENT LLP**

## **Notes to the financial statements**

**Period ended 30 April 2005**

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### **Accounting policies (continued)**

#### **Operating leases**

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

#### **Foreign currencies**

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.

#### **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 intercompany 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.

#### **Current assets investment**

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. This is not in accordance with Schedule 4 of the Companies Act 1985, which requires that such assets be stated at the lower of cost and net realisable value, or that if revalued any revaluation differences to be taken to revaluation reserve. The directors consider that these requirements would fail to give a true and fair view of the profit for the year of the partnership and hence the economic measure of profit in any period is properly made by reference to market values. The effect of the departure on the accounts this year is £nil.

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the financial statements

Period ended 30 April 2005

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### 2. Turnover

The turnover and loss are attributable to the principle activity of the group.

An analysis of turnover is given below:

	2005 £
United Kingdom	28,170
United States	14,085
	<u>42,255</u>

### 3. Operating loss

Operating loss is stated after charging:

	2005 £
Staff pension contributions	83,997
Depreciation of owned fixed assets	87,946
Auditors' remuneration	
- audit	15,000
- other services	26,500
Operating lease costs – land and buildings	67,952
	<u>          </u>

### 4. Employees and remuneration

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

	2005 No
Number of administrative staff	<u>8</u>

The aggregate payroll costs of staff were:

	2005 £
Wages and salaries	1,169,868
Social security costs	129,277
Other pension costs	83,997
	<u>1,383,142</u>

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the financial statements

Period ended 30 April 2005

### 5. Tangible fixed assets – the group

	Plant and machinery £	Office equipment £	Total £
<b>COST</b>			
Additions	262,063	209,783	471,846
At 30 April 2005	<u>262,063</u>	<u>209,783</u>	<u>471,846</u>
<b>DEPRECIATION</b>			
Charge for the year	43,650	44,296	87,946
At 30 April 2005	<u>43,650</u>	<u>44,296</u>	<u>87,946</u>
<b>NET BOOK VALUE</b>			
At 30 April 2005	<u>218,413</u>	<u>165,487</u>	<u>383,900</u>

### 6. Tangible fixed assets – the LLP

	Plant and machinery £	Office equipment £	Total £
<b>COST</b>			
Additions	262,063	176,365	438,428
At 30 April 2005	<u>262,063</u>	<u>176,365</u>	<u>438,428</u>
<b>DEPRECIATION</b>			
Charge for the year	43,650	39,283	82,933
At 30 April 2005	<u>43,650</u>	<u>39,283</u>	<u>82,933</u>
<b>NET BOOK VALUE</b>			
At 30 April 2005	<u>218,413</u>	<u>137,082</u>	<u>355,495</u>

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the financial statements

Period ended 30 April 2005

### 7. Investments – the group

	Other investment £
Cost	
Additions	1,691,820
At 30 April 2005	<u>1,691,820</u>

Other investment includes an investment on behalf of an Employee Incentive Bonus Plan of £1,489,636, details of which are given in note 12, and £202,184 invested as seed capital in Generation IM Global Equity Fund LLC, a US registered private investment fund managed by Generation Investment Management US LLP.

### 8. Investments – the LLP

	Investments in subsidiaries £	Other investment £	Total £
COST			
Additions	1,302,001	1,105,000	2,407,001
At 30 April 2005	<u>1,302,001</u>	<u>1,105,000</u>	<u>2,407,001</u>

Other investment is an investment on behalf of an Employee Incentive Bonus Plan, details of which are given in note 12.

#### Investments in subsidiaries

Name	Country of incorporation	Principal activity	Country of principal	% Of capital interest held operations
Generation Investment Management US LLP	USA	financial investment	UK	100%
Generation Services LLC	USA	services company	UK	100%

### 9. Debtors

	2005	
	The group £	The LLP £
VAT recoverable	195,851	195,851
Other debtors	254,146	223,950
Deferred award	1,619,925	1,226,308
Prepayments	140,693	140,693
	<u>2,210,615</u>	<u>1,786,802</u>

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the financial statements

Period ended 30 April 2005

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

	2005	
	The group	The LLP
	£	£
Trade creditors	145,203	145,203
PAYE and social security	143,083	143,083
Accruals and deferred income	72,469	22,388
	<u>360,755</u>	<u>310,674</u>

### 11. Provision for liability and charges

	2005	
	The group	The LLP
	£	£
Employee incentive plan	<u>1,627,126</u>	<u>1,236,390</u>

### 12. Employee Incentive Bonus Plan

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 Incentive Bonus Plan schemes:

1. 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.

2. 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 £1,489,636.

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.

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the financial statements

Period ended 30 April 2005

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### 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 £35,729 were met by the Group which will be reimbursed by the Foundation. No 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

	2005
	No.
The average number of members during the period was:	<u>6</u>
	£
In the period 1 partner drew a salary amounting to	<u>233,225</u>
The loss for the period attributable to the member with the largest entitlement was:	

	<b>Allocated loss for the period £</b>
The group	(2,504,227)
	<u>(2,504,227)</u>
The LLP	(1,889,720)
	<u>(1,889,720)</u>

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the financial statements

Period ended 30 April 2005

### 16. Reconciliation of movement in members' interests in the group

	Members' capital	Other reserves	Total	Loans & other debts due to members	Total
	£	£	£	£	£
Members' interest:					
Capital introduced in the period	12,000,000	-	12,000,000	-	12,000,000
Capital contribution to employees incentive scheme	(1,489,636)	1,489,636	-	-	-
Loss for the financial period available for division among members	-	(2,517,805)	(2,517,805)	-	(2,517,805)
Members' interest after loss for the period	10,510,364	(1,028,169)	9,482,195	-	9,482,195
Allocated loss	(2,504,227)	2,504,227	-	-	-
Drawings	(530,585)	-	(530,585)	-	(530,585)
Members interest at 30 April 2005	7,475,552	1,476,058	8,951,610	-	8,951,610

### 17. Commitments under operating leases

At 30 April 2005 the LLP had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings £
<b>The Group</b>	
Operating leases which expire:	
Within 1 year	67,760
Within 2 to 5 years	<u>130,312</u>
<b>The LLP</b>	
Operating leases which expire:	
Within 2 to 5 years	<u>130,312</u>

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 £130,312 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 2006. The rental payments are £62,760 per annum paid monthly in advance.