

Partnership Registration Number OC307600

GENERATION INVESTMENT MANAGEMENT LLP

Members' Report and Consolidated Financial Statements

31 December 2010

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GENERATION INVESTMENT MANAGEMENT LLP

Contents

31 December 2010

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GENERATION INVESTMENT MANAGEMENT LLP

Designated Members and Professional Advisors

Year ended 31 December 2010

Designated members:

D W Blood
P M Harris

Other members:

M Ferguson
A A Gore
P S Knight
C M le Duc
M R Nogales
H A Mehn
M C Mills
D Guirdham (appointed 1 January 2010)
L Anderson (appointed 1 January 2010)
D J Austin (appointed 1 January 2010)
M K Bray (appointed 1 January 2010)
K Dicker (appointed 1 September 2010)
M J Kim (appointed 1 January 2010)
N Kukrika (appointed 1 January 2010)
D M Lowish (appointed 1 January 2010)
M K McBrinn (appointed 1 January 2010)
L M Preston (appointed 1 January 2010)
R Rajeswaran (appointed 1 January 2010)
N N Rosinski (appointed 1 January 2010)

Corporate members:

Festivebright Limited
Generation Investment Management Services Limited
(appointed 29 December 2009)

**Registered office
and business address:**

One Vine Street
London
W1J 0AH

Independent auditors:

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Hay's Galleria
1 Hay's Lane
London
SE1 2RD

GENERATION INVESTMENT MANAGEMENT LLP

Members' Report

Year ended 31 December 2010

The members have pleasure in presenting their report and the audited consolidated financial statements of Generation Investment Management LLP ("Generation", "Partnership" or the "LLP") and its subsidiaries (together the "Group") for the year ended 31 December 2010

Business review and principal activities

Generation Investment Management LLP is an independent, private, owner managed limited liability partnership

Generation 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 Partnership is authorised and regulated in the United Kingdom by the Financial Services Authority. Generation Investment Management US LLP is authorised by the US Securities and Exchange Commission

On 29 December 2009 Generation Investment Management Services Limited (the "Company") was appointed as a corporate member of the LLP. The principal activity of the Company is to provide staff services to the LLP

Results for the year and allocation to members

The profit for the year attributable to members was £49.1m (2009 profit of £31.5m)

Net assets attributable to members as at 31 December 2010 were £46.0m (2009 net assets of £20.8m)

Future outlook

Generation intends to continue to develop its investment team, refine the investment process and provide exceptional client service

Principal risks and uncertainties

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 note 18 to the financial statements. In accordance with the rules of the Financial Services Authority, the Group has published information on its risk management objectives and policies and on its regulatory capital requirements and resources. This information is available at www.generationim.com

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 principal risks

Risk Oversight Group

The Group exercises oversight of its principal risks through the Risk Oversight Group ("ROG"). The ROG is chaired by an independent non-executive officer, its role, among other responsibilities is to review Generation's internal controls and regulatory compliance, receive reports from Generation's external auditors and consider the draft financial statements prior to approval by the members. The ROG met formally five times during the year

GENERATION INVESTMENT MANAGEMENT LLP

Members' Report

Year ended 31 December 2010

Designated members

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

- D W Blood
- P M Harris (18 August 2004)

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

Certain members are entitled to Annual Profit Share (APS) which is taken as drawings except in the case of twelve members where their APS was taken as salary in 2010 (2009 none) The amount of APS 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 Distributions may be paid net of a tax retention which is released to members to pay tax as required The balance of tax retained from members is shown within Amounts due to members

In the event of the LLP being wound up, no member has agreed with other members that he/she 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

Capitalisation

The current level of capital is sufficient to permit Generation to attract and retain talented investment professionals, to concentrate on further refining the investment process and to meet regulatory requirements

Employee Incentive Benefit Plan (EIBP)

To date Generation has invested £3.0m (£0.7m was invested during the year) in an incentive benefit plan for members and employees Members and employees have been granted awards which have been invested in Generation's investment funds Generally and subject to the Plan Rules, the awards vest after three years and after five years the investments may be realised and cash payments made based upon the current redemption value of those investments

FSA Remuneration Code disclosures

In accordance with the rules of the Financial Services Authority, it is the intention of the members to comply with the FSA Remuneration Code disclosures prior to the 31 December 2011 deadline This information will be available at www.generationim.com

Carbon offsetting

Generation is an associate member of the Chicago Climate Exchange (CCX) As such, Generation has a binding commitment to measure and report its business-related emissions Generation undergoes an annual audit of its carbon footprint as part of this process Carbon instruments are purchased sufficient to offset emissions from electricity use, commuting, and business travel on an annual basis following completion of the audit In a further effort to minimise its impact on the environment Generation also purchases voluntary offsets to cover the estimated personal emissions attributable to all employees, members, their partners and any children In 2010 these voluntary offsets were generated from renewable energy and forestry projects

GENERATION INVESTMENT MANAGEMENT LLP

Members' Report

Year ended 31 December 2010

Generation Foundation

5% of the Group's profitability is allocated to the Generation Foundation (the "Foundation") During 2010 the Foundation provided a matched giving programme for eligible employee charitable donations and sponsored Generation's annual community project day The Foundation plans to commence grant giving activities in 2011

Statement of members' responsibilities

The Limited Liability Partnerships (Accounts and Audit)(Application of Companies Act 2006) Regulations 2008 require 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 Limited Liability Partnerships (Accounts and Audit)(Application of Companies Act 2006) Regulations 2008 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 These responsibilities are fulfilled by the members

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

Statement of disclosure of information to auditors

As so 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

Independent auditors

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

Registered office

One Vine Street
London
W1J 0AH

Signed on behalf of the members



P M Harris
Designated member

Approved by the members on 21 April 2011

GENERATION INVESTMENT MANAGEMENT LLP

Our Values

Year ended 31 December 2010

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 2010

We have audited the Group and Partnership financial statements (the "financial statements") of Generation Investment Management LLP for the year ended 31 December 2010 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Partnership Balance Sheets, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of members and auditors

As explained more fully in the Statement of Members' Responsibilities set out on page 4, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the members of the Partnership in accordance with the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and Partnership's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the designated members, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and Partnership's affairs as at 31 December 2010 and of the Group's profit and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008

GENERATION INVESTMENT MANAGEMENT LLP

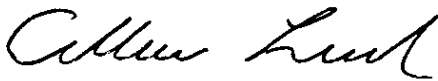
Independent Auditors' Report to the Members of Generation Investment Management LLP

Year ended 31 December 2010

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the Partnership, or returns adequate for our audit have not been received from branches not visited by us, or
- the Partnership financial statements are not in agreement with the accounting records and returns, or
- we have not received all the information and explanations we require for our audit



Colleen Local (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Hay's Galleria
1 Hay's Lane
London
SE1 2RD

21 April 2011

GENERATION INVESTMENT MANAGEMENT LLP

Consolidated Profit and Loss Account

Year 31 December 2010

	Note	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Turnover	2	66,654	46,048
Administrative expenses		(15,376)	(15,047)
Other operating income	3	129	102
Operating profit	4	51,407	31,103
Interest receivable		88	64
Unrealised gain on investments	8, 9	169	830
Interest payable		(29)	(57)
Profit for the financial year before taxation		51,635	31,940
Taxation	5	(722)	(427)
Profit for the financial year before members' remuneration and profit shares		50,913	31,513
Members' remuneration charged as an expense	17	(1,815)	-
Profit for the financial year available for discretionary division among members		49,098	31,513

Consolidated Statement of Total Recognised Gains and Losses

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Profit for the financial year available for division among members	49,098	31,513
Translation loss on consolidation of foreign subsidiary	(116)	(735)
Total recognised gains and losses	48,982	30,778

All of the activities of the Group are classed as continuing

There is no material difference between the profit on ordinary activities before taxation and the profit for the year stated above and their historical costs equivalents

As permitted by Section 408 Companies Act 2006 (as modified for application to LLPs) the LLP is exempt from presenting its own profit and loss account. The profit of the LLP for the financial year amounted to £42.1m (2009: £28.9m)

The notes on pages 13 – 29 form part of these financial statements

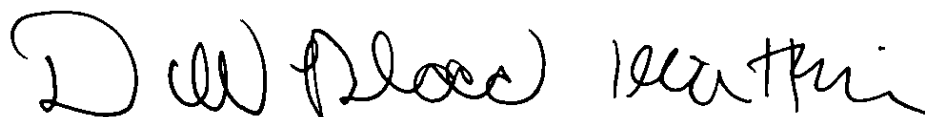
GENERATION INVESTMENT MANAGEMENT LLP

Consolidated Balance Sheet

At 31 December 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	7	691	1,059
Investments	8	2,209	2,209
		<u>2,900</u>	<u>3,268</u>
Current assets			
Debtors	10	22,386	12,696
Investments	9	22,030	6,668
Cash and short term deposits at bank		4,311	10,531
		<u>48,727</u>	<u>29,895</u>
Creditors: Amounts falling due within one year	11	<u>(3,137)</u>	<u>(7,948)</u>
Net current assets		<u>45,590</u>	<u>21,947</u>
Total assets less current liabilities		<u>48,490</u>	<u>25,215</u>
Creditors: Amounts falling due after more than one year	12	-	(115)
Provisions for liabilities	13	<u>(2,460)</u>	<u>(4,296)</u>
Net assets attributable to members		<u>46,030</u>	<u>20,804</u>
Represented by:			
Equity			
Members' capital	19	7,221	7,320
Foreign exchange reserves	19	111	227
EIBP gift reserve	14, 19	251	424
Other reserves	19	27,254	12,833
		<u>34,837</u>	<u>20,804</u>
Total members' interests			
Amounts due to members	19	11,193	-
Members' other interests	19	34,837	20,804
		<u>46,030</u>	<u>20,804</u>

The financial statements were approved by the designated members on 21 April 2011



D W Blood
Designated member

P M Harris
Designated member

The notes on pages 13 – 29 form part of these financial statements

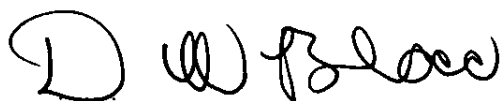
GENERATION INVESTMENT MANAGEMENT LLP

Partnership Balance Sheet

At 31 December 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	7	119	413
Investments	8	4,003	4,003
		<u>4,122</u>	<u>4,416</u>
Current assets			
Debtors	10	20,237	12,515
Investments	9	21,396	5,918
Cash and short term deposits at bank		2,734	10,331
		<u>44,367</u>	<u>28,764</u>
Creditors' Amounts falling due within one year	11	<u>(4,900)</u>	<u>(7,613)</u>
Net current assets		<u>39,467</u>	<u>21,151</u>
Total assets less current liabilities		43,589	25,567
Creditors' Amounts falling due after more than one year	12	-	(115)
Provisions for liabilities	13	<u>(2,151)</u>	<u>(3,369)</u>
Net assets attributable to members		<u>41,438</u>	<u>22,083</u>
Represented by Equity			
Members' capital	19	9,061	9,160
EIBP gift reserve	14, 19	631	790
Other reserves	19	20,553	12,133
		<u>30,245</u>	<u>22,083</u>
Total members' interests			
Amounts due to members	19	11,193	-
Members' other interests	19	30,245	22,083
		<u>41,438</u>	<u>22,083</u>

The financial statements were approved by the designated members on 21 April 2011



D W Blood
Designated member



P M Harris
Designated member

The notes on pages 13 – 29 form part of these financial statements

GENERATION INVESTMENT MANAGEMENT LLP

Consolidated Cash Flow Statement

Year ended 31 December 2010

	Note	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Net cash inflow from operating activities	(1)	35,381	31,159
Returns on investments and servicing of finance			
Interest received		88	64
Interest element of finance leases		(29)	(57)
Net cash inflows from returns on investments and servicing of finance		59	7
Taxation		(607)	(130)
Capital expenditure and financial investment			
Receipt from sale of fixed assets		-	4
Payments to acquire fixed assets		(35)	(806)
Receipt from sale of investments		2,754	-
Payments to acquire investments		(17,947)	(3,182)
Net cash outflow from capital expenditure and financial investment		(15,228)	(3,984)
Transactions with members			
Capital contributions		-	-
Salaried remuneration of members		(1,815)	-
Drawings paid to members		(23,756)	(21,780)
Net cash outflow from transactions with members		(25,571)	(21,780)
Financing		(254)	(227)
Net increase/(decrease) in cash and short term deposits at bank	(2)	(6,220)	5,045

The notes on pages 13 – 29 form part of these financial statements

GENERATION INVESTMENT MANAGEMENT LLP

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2010

	Year ended 31 December 2010	Year ended 31 December 2009
	£'000	£'000
(1) Reconciliation of operating profit to net cash outflow from operating activities		
Operating profit	51,407	31,103
Depreciation	403	391
Loss on disposal of fixed assets	-	7
Increase in debtors	(9,690)	(7,889)
Increase/(decrease) in creditors	(4,926)	5,210
Increase/(decrease) in provisions	(1,836)	1,319
Other non-cash changes	23	1,018
Net cash inflow from operating activities	35,381	31,159

	Year ended 31 December 2010	Year ended 31 December 2009
	£'000	£'000
(2) Reconciliation of net cash flow to movements in net funds		
Increase/(decrease) in cash and short term deposit at bank	(6,220)	5,045
Finance leases	254	227
Movement in net funds in the year	(5,966)	5,272
Net funds at beginning of year	10,161	4,889
Net funds at end of year	4,195	10,161

Analysis of changes in net funds

	1 January 2010 £'000	Cash flows £'000	Other non-cash changes £'000	31 December 2010 £'000
Net cash				
Cash and short term deposit at bank	10,531	(6,220)	-	4,311
Debt				
Finance lease agreements	(370)	-	254	(116)
Net funds	10,161	(6,220)	254	4,195

The notes on pages 13 – 29 form part of these financial statements

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements

Year ended 31 December 2010

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 and in accordance with the Companies Act 2006 as applied to Limited Liability Partnerships and applicable accounting standards in the United Kingdom. The financial statements have also been prepared in accordance with the Statement of Recommended Practice 'Accounting by Limited Liability Partnerships' (SORP) issued in 2010. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

Consolidation

The consolidated financial statements incorporate the financial statements of the LLP and its subsidiary undertakings. All significant inter-company accounts and transactions have been eliminated upon consolidation. As a consolidated 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 408 of the Companies Act 2006. Uniform accounting policies are adopted throughout the group.

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.

Where a trading transaction is covered by a related or matching forward contract, the rate of exchange specified in the contract is used.

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 (UK and USA) 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 compared to an agreed designated benchmark 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.

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements (*continued*)

Year ended 31 December 2010

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.

Employee Incentive Benefit Plan (EIBP)

The Group has created the EIBP for members and employees. Payments made to the plan in respect of awards to certain employees and members are recognised as assets and liabilities of the Group until such assets vest, subject to the Plan Rules, to the identified beneficiary.

Finance leases

Assets held under finance lease agreements are capitalised and disclosed under tangible fixed assets at the present value of the minimum lease payments. They are depreciated over the lower of the useful lives and the term of the lease. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account over the life of the lease.

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.

Generation Investment Management US LLP is subject to corporate level taxes levied by New York City, its place of business, based on profits for the financial year.

Deferred tax in relation to Generation Investment Management US LLP is recognised, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is measured at the tax rates that are substantively enacted at the balance sheet date and expected to apply in the periods in which the temporary differences reverse.

Tangible fixed assets

Tangible fixed assets are stated at the lower of cost or valuation less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

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 % & 33 1/3 % straight line per annum
Leasehold premises	-	over the length of the lease

Fixed asset investments

Fixed asset investments are financial assets held for continuing use in the business and include investments in Generation funds, shares in subsidiary undertakings and equity securities. Fund investments and equity securities are held at fair value through profit or loss and are stated at market value in accordance with market practice and profits and losses on revaluation are taken.

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements *(continued)*

Year ended 31 December 2010

to the profit and loss account as unrealised. Generation uses the most appropriate method to determine the fair value of unquoted entities and equity related securities. Valuation methods may include the use of recent transaction prices, applying an earnings multiple to maintainable earnings or using a discounted cashflow model. 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 financial asset investments held for continuing use in the business. Marketable securities are classified as held at fair value through profit or loss and are stated at market value in accordance with market practice, profits and losses arising from revaluation are taken to the profit and loss account as unrealised.

Current assets

Current assets include receivables which are non-derivative financial assets with fixed or determinable payments not quoted on an active market. The Group and LLP's current assets comprise trade and other receivables and cash and cash equivalents in the balance sheet.

An assessment is made at each balance sheet date whether there is objective evidence that a financial asset is impaired.

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 amounts 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 profit are attributable to the principle activity of the Group.

An analysis of turnover is given below:

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
United Kingdom	42,503	27,856
United States	24,151	18,192
	<u>66,654</u>	<u>46,048</u>

3 Other operating income

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Rents receivable	<u>129</u>	<u>102</u>

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements (*continued*)

Year ended 31 December 2010

4. Operating profit

Operating profit is stated after charging

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Depreciation of own fixed assets	164	152
Depreciation of assets held under finance lease agreements	239	239
Auditors' remuneration		
- fees payable to Partnership's auditor for the audit of Partnership and consolidated accounts	41	44
- the audit of Partnership's subsidiaries pursuant to legislation	33	20
- non-audit services	377	212
Loss on disposal of fixed assets	-	7
Operating lease costs – buildings	1,368	1,238
Foreign exchange (gain)/loss	(495)	98

5. Taxation

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Current tax		
Foreign current tax	607	246
Deferred tax		
Origination of timing differences		
Foreign deferred tax	115	181
Tax on profit on ordinary activities	722	427

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements *(continued)*

Year ended 31 December 2010

The tax for the period is lower (2009 lower) than the standard rate of tax for the year ended 31 December 2010 as the Group is not subject to UK corporation tax. However, foreign subsidiary undertakings are subject to local corporate taxes largely arising on profits for the financial year as shown below. Generation Investment Management Services is a subsidiary of the LLP and is subject to corporation tax. For the year-ended 31 December 2010 the Company reported no taxable profits.

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Foreign corporate tax arising on foreign profits	589	232
Other foreign tax	18	14
Total current tax	607	246

6. Employees and remuneration

The average monthly number of employees and salaried members of the Group during the financial year amounted to

	Year ended 31 December 2010 Number	Year ended 31 December 2009 Number
Number of employees	32	30
The aggregate of payroll costs of staff were	£'000	£'000
Wages and salaries	8,038	6,249
Social security costs	762	741
Other pension costs	331	306
	9,131	7,296

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements (*continued*)

Year ended 31 December 2010

7 Tangible fixed assets – the Group

	Leasehold premises £'000	Fittings and furnishings £'000	Office equipment £'000	Total £'000
COST				
At 1 January 2010	679	835	449	1,963
Additions	-	5	30	35
At 31 December 2010	679	840	479	1,998
DEPRECIATION				
At 1 January 2010	66	494	344	904
Charge for the year	69	263	71	403
At 31 December 2010	135	757	415	1,307
NET BOOK VALUE				
At 31 December 2010	544	83	64	691
At 31 December 2009	613	341	105	1,059

Tangible fixed assets – the LLP

	Leasehold premises £'000	Fittings and furnishings £'000	Office equipment £'000	Total £'000
COST				
At 1 January 2010	78	753	403	1,234
Additions	-	-	30	30
At 31 December 2010	78	753	433	1,264
DEPRECIATION				
At 1 January 2010	16	489	316	821
Charge for the year	7	246	71	324
At 31 December 2010	23	735	387	1,145
NET BOOK VALUE				
At 31 December 2010	55	18	46	119
At 31 December 2009	62	264	87	413

Included within the group net book value of £691,000 (£119,000 - LLP) is £nil (2009 £239,000) relating to assets held under finance leases. The depreciation charged to the financial statements in the year in respect of such assets amounted to £239,000 (2009 £239,000).

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements *(continued)*

Year ended 31 December 2010

8. Fixed asset investments – the Group

Investments in Generation funds and investments

	2010			2009		
	Generation funds	Investments	Total	Generation funds	Investments	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At start of year	5	2,204	2,209	1	-	1
Additions	-	-	-	-	2,204	2,204
Disposals	-	-	-	-	-	-
Revaluation on currency translation	-	-	-	-	-	-
Unrealised (loss)/gain on investments	-	-	-	4	-	4
At end of year	5	2,204	2,209	5	2,204	2,209

Fixed asset investments – the LLP

Shares in subsidiary undertakings and investments

	2010			2009		
	Subsidiary undertakings	Investments	Total	Subsidiary undertakings	Investments	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At start of year	1,799	2,204	4,003	1,799	-	1,799
Additions	-	-	-	-	2,204	2,204
At end of year	1,799	2,204	4,003	1,799	2,204	4,003

Subsidiary undertakings comprise the following

Name	Country of registration	Nature of business
Generation Investment Management Services Limited	England	Supplier of staff services
Generation IM Climate Solutions GP (Scotland) Limited	Scotland	General partner
Generation Investment Management US LLP	USA	Investment manager
Generation IM Climate Solutions GP Limited	Cayman	General partner

The LLP owns 99.9% of Generation Investment Management US LLP which in turn owns 100% of Generation Investment Management Services LLC which holds the remaining 0.01% investment in Generation Investment Management US LLP

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements (*continued*)

Year ended 31 December 2010

Generation IM Climate Solutions GP (Scotland) Limited and Generation IM Climate Solutions GP Limited were dormant for the period to 31 December 2010. Generation Investment Management Services Limited forms part of the Group and is consolidated accordingly.

Investments represent a minority holding in New Forests Pty Limited. The members believe that the carrying value of subsidiary undertakings and investments is supported by their underlying net assets.

9. Current asset investments – the Group

	2010 £'000	2009 £'000
At start of year	6,668	4,914
Additions	17,947	978
Revaluation on currency translation	-	(50)
Disposal	(2,754)	-
Unrealised gain on investments	169	826
At end of year	22,030	6,668

Current asset investments – the LLP

	2010 £'000	2009 £'000
At start of year	5,918	4,364
Additions	17,360	956
Disposals	(2,046)	-
Unrealised gain on investments	164	598
At end of year	21,396	5,918

Current asset investments comprise investments in sterling liquid money market funds and investment on behalf of the EIBP, details of which are given in note 13. The money market funds are used as diversification vehicles for holding short term operating cash and are valued at par, £19.5m (2009 £2.9m). Assets held by the EIBP are restricted in their use by the Group and LLP. The members believe that the carrying value of the investments is supported by their underlying net assets.

10. Debtors

	2010		2009	
	The Group £'000	The LLP £'000	The Group £'000	The LLP £'000
Trade debtors	-	-	-	-
VAT recoverable	122	119	90	90
Other debtors	99	5,768	2	5,359
Deferred award	1,142	1,133	524	502
Prepayments and accrued income	21,023	13,217	12,080	6,564
	22,386	20,237	12,696	12,515

There are no trade debtors as at 31 December 2010 (2009 none)

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements *(continued)*

Year ended 31 December 2010

11. Creditors: Amounts falling due within one year

	2010		2009	
	The Group £'000	The LLP £'000	The Group £'000	The LLP £'000
Trade creditors	1,133	1,099	365	228
PAYE and social insurance	591	150	1,440	1,440
Amounts due under finance leases	115	115	255	255
Other creditors	-	2,601	4,969	4,857
Accruals and deferred income	1,298	935	919	833
	<u>3,137</u>	<u>4,900</u>	<u>7,948</u>	<u>7,613</u>

12. Creditors: Amounts falling due after more than one year

	2010		2009	
	The Group £'000	The LLP £'000	The Group £'000	The LLP £'000
Amounts due under finance leases	<u>-</u>	<u>-</u>	<u>115</u>	<u>115</u>

Finance lease commitments

Future minimum payments under finance leases are as follows

	2010 £'000	2009 £'000
Within one year	115	255
In more than one year, but not more than five years	<u>-</u>	<u>115</u>
	<u>115</u>	<u>370</u>

13 Provisions for liabilities

The Group

	EIBP £'000	Deferred tax £'000	VAT £'000	Total £'000
At 1 January 2010				
	4,020	176	100	4,296
Movement in year	<u>(1,855)</u>	<u>119</u>	<u>(100)</u>	<u>(1,836)</u>
At 31 December 2010	<u>2,165</u>	<u>295</u>	<u>-</u>	<u>2,460</u>

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements (*continued*)

Year ended 31 December 2010

The LLP

	EIBP £'000	VAT £'000	Total £'000
At 1 January 2010	3,269	100	3,369
Movement in year	(1,118)	(100)	(1,218)
At 31 December 2010	2,151	-	2,151

Employee Incentive Benefit Plan

Provisions for liabilities consist of amounts due to employees by the EIBP of £1.9m (2009 £3.7m) and National Insurance on the awards under the EIBP of £0.2m (2009 £0.3m). The first redemption under the EIBP took place on 1 February 2010.

VAT

A provision was recognised in 2009 in respect of certain investment management fees which may have been considered to be subject to VAT. The provision represented management's assessment of the VAT and associated charges that may fall on the Group. The provision was released in full during 2010 following resolution of the matter.

Deferred tax

The charge to tax, which arises in Generation Investment Management US LLP included within these financial statements, is

	The Group		The LLP	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Provision for deferred tax comprises -				
Short-term timing differences	295	176	-	-
Deferred tax provision	295	176	-	-

14. Employee Incentive Benefit Plan

The plans are designed to give certain employees and members an investment interest in the Generation managed investment funds. On the closure of the plan the value of these interests in the funds will be realised and payments will be made in respect of the value of those interests at the time.

Generation provides two separate Employee Incentive Benefit Plans.

Generation IM Global Equity Plan

- For certain UK employees the LLP has created an Employee Benefit Trust in which those UK employees will be beneficiaries. The Trust has made an investment in units of the Generation IM Global Equity Fund.
- For certain UK employees, 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 consolidated financial statements *(continued)*

Year ended 31 December 2010

Generation IM Climate Solutions Plan

- For certain UK employees and US citizen employees the LLP has invested directly in the Generation IM Climate Solutions Fund, L P , feeder funds

Member and employee interests in the plans are set out in award letters to participants. The awards represent awards of units or financial interests in Generation IM Funds. The number of units comprised in an award or the financial interest depends on the member's or employee's level of seniority at the grant date.

The aggregate capital provided to the EIBP reached £2.5m (2009: £2.3m) during 2010 and represents the maximum contribution which can be made to the scheme from Members' Capital. Subsequent contributions to the scheme will be funded from the Group's working capital.

Terms and conditions of the awards 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 may be made in respect of the value of the awards.

15 Related party transactions

The Group is appointed as the investment manager of Generation IM Global Equity Fund LLC, Generation IM Fund PLC, including its sub fund Generation IM Global Equity Fund and Generation IM Climate Solutions Fund, L P. The Group also has an interest in Generation IM Climate Solutions SLP, L P , a vehicle formed to account for the carried interest due to the investment manager.

Generation IM Global Equity Fund is a related party as three group members are directors of Generation IM Fund PLC.

Generation IM Global Equity Fund LLC is a related party as a group member serves as Organisational Member of the Fund.

Generation IM Climate Solutions Fund, L P is a related party as two group members serve as directors of Generation IM Climate Solutions GP, Ltd.

The Group holds 10,967,416 (2009: 19,219,140) shares in Generation IM Global Equity Fund. As at 31 December 2010 no shares (2009: 11,238,530) are held by Halifax EES Trustees International Ltd as trustees for the Group's EIBP in respect of certain UK members and employees following redemption of awards on 1 February 2010. The Group holds interests amounting to £0.03m (2009: £0.80m) invested in Generation IM Global Equity Fund LLC on behalf of certain US members and employees, and committed interests called of £0.20m (2009: £0.20m) in Generation IM Climate Solutions Fund, L P on behalf of certain UK and US employees, all in connection with the Group's EIBP (see note 13 and 14).

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements (*continued*)

Year ended 31 December 2010

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

	Total Income for year ended		Accrued Income as at	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	£'000	£'000	£'000	£'000
Generation IM Global Equity Fund	27,658	9,347	11,296	3,394
Generation IM Global Equity Fund LLC	10,613	4,743	3,812	1,124
Generation IM Climate Solutions Fund, L P	5,460	5,221	-	-

An agreement is in place between Generation Investment Management US LLP and Caney Fork River LLC to sublease office space with effect from 15 March 2009. A group member is also a member of Caney Fork River LLC. Under the sublease arrangement the Group earned income during the year as follows

	Total Income for year ended		Accrued Income as at	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	£'000	£'000	£'000	£'000
Caney Fork River LLC	129	102	-	10

16. Controlling party

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

17. Information in relation to members

	Year ended 31 December 2010	Year ended 31 December 2009
	Number	Number
Average number of members during the year	20	9
	£'000	£'000
Members drew salaries amounting to	1,815	-
Profit for the year attributable to members	£'000	£'000
The Group	49,370	31,578
The LLP	42,344	29,127

The profit attributable to the Senior Partner, the member with the largest entitlement, is estimated to be £10.7m (2009: £7.7m).

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements (*continued*)

Year ended 31 December 2010

18. 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 principal 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.

The Group invests surplus cash balances in daily liquidity money market funds with various financial institutions. The Group monitors its exposure to market risk by periodically assessing the quality of the underlying investments of the fund. These assets are held at fair value (which is generally par) through profit or loss. The Group does not rely on interest from money market funds for operating purposes.

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.

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 seeks to minimise its exposure to fluctuations in exchange rates by hedging against foreign currency exposures.

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 followed 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.

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements (*continued*)

Year ended 31 December 2010

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 Group's 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.

Fair value estimation

With effect from 1 January 2009, the Group adopted the amendment to FRS 29 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

	Level 1	Level 2	Level 3	Total balance
	£'000	£'000	£'000	£'000
Assets				
Financial assets held at Fair Value through profit or loss				
-Equity securities	1,735	243	2,204	4,182
Total assets	1,735	243	2,204	4,182

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements *(continued)*

Year ended 31 December 2010

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument would be included in level 3.

The following table presents the changes in level 3 instruments for the year ended 31 December 2010.

	£'000
Opening balance	2,204
Movement in the year	-
Closing balance	2,204

Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period.

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements (*continued*)

Year ended 31 December 2010

19. Reconciliation of movement in members' interests for the year to 31 December 2010

The Group

	Members' capital	Foreign exchange reserves	EIBP gift reserve	Other reserves	TOTAL	Amounts due to members	TOTAL 2010	TOTAL 2009
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Members' interest At 1 January	7,320	227	424	12,833	20,804	-	20,804	9,806
Profit for the financial year available for division among members	-	-	-	49,098	49,098	-	49,098	31,513
Members' interest after profit for the year	7,320	227	424	61,931	69,902	-	69,902	41,319
Capital introduced	-	-	-	-	-	-	-	2,000
Foreign exchange loss	-	(116)	-	-	(116)	-	(116)	(735)
Additional gift amount	(99)	-	99	-	-	-	-	-
EIBP gift expense	-	-	(272)	272	-	-	-	-
Drawings	-	-	-	(34,949)	(34,949)	-	(34,949)	(21,780)
Amounts due to members	-	-	-	-	-	11,193	11,193	-
Members' interest At 31 December	7,221	111	251	27,254	34,837	11,193	46,030	20,804

The LLP

	Members' capital	EIBP gift reserve	Other reserves	TOTAL	Amounts due to members	TOTAL 2010	TOTAL 2009
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Members' interest At 1 January	9,160	790	12,133	22,083	-	22,083	12,478
Profit for the financial year available for division among members	-	-	42,086	42,086	-	42,086	28,886
Members' interest after profit for the year	9,160	790	54,219	64,169	-	64,169	41,364
Capital introduced	-	-	-	-	-	-	2,000
Additional gift amount	(99)	99	-	-	-	-	-
EIBP gift expense	-	(258)	258	-	-	-	-
Drawings	-	-	(33,924)	(33,924)	-	(33,924)	(21,281)
Amounts due to members	-	-	-	-	11,193	11,193	-
Members' interest At 31 December	9,061	631	20,553	30,245	11,193	41,438	22,083

GENERATION INVESTMENT MANAGEMENT LLP

Notes to the consolidated financial statements *(continued)*

Year ended 31 December 2010

20. Commitments under operating leases

As at 31 December 2010 the Group and LLP had annual commitments under non-cancellable operating leases as follows -

Annual commitments	2010		2009	
	The Group £'000	The LLP £'000	The Group £'000	The LLP £'000
Buildings				
Operating leases which expire				
Within 1 year	-	-	-	-
Within 2 to 5 years	814	814	814	814
After 5 years	694	-	694	-
Other operating leases				
Operating leases which expire				
Within 1 year	-	-	3	3
Within 2 to 5 years	6	6	-	-

On 17 December 2007 the LLP entered into an agreement to lease in respect of office space 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 are £0.8m per annum and commenced 28 January 2009.

Of the rent free period accrual on the new office an amount of £0.1m relates to 2010.

On 15 April 2008 the US LLP entered into an agreement to lease in respect of office space in New York, USA. The lease became effective from the Commencement Date of 15 March 2009. The lease expires on 28 February 2019. The rent is approximately £0.6m pa with a review at the end of year five. The above figures are estimated using the sterling/dollar rate at 31 December 2010.