

Partnership Registration Number: OC307600

**GENERATION INVESTMENT MANAGEMENT LLP**

Members' Report and Consolidated Financial Statements

31 December 2013



# GENERATION INVESTMENT MANAGEMENT LLP

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31 December 2013

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# **GENERATION INVESTMENT MANAGEMENT LLP**

Members and Professional Advisor

Year ended 31 December 2013

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**Designated members:**

D W Blood  
P M Harris

**Other members:**

D J Austin  
C M le Duc  
M Ferguson  
A A Gore  
D Guirdham (resigned 31 December 2013)  
P S Knight  
N Kukrika  
D M Lowish  
A M Marshall  
H A Mehn  
M C Mills  
M R Nogales  
R Rajeswaran  
M J Ramsay  
L Anderson  
M K Bray  
J L Curtis  
K Dicker  
M J Kim (resigned 31 May 2013)  
M K McBrinn  
L M Preston  
N N Rosinski  
G S Wasserman

**Registered office  
and business address:**

20 Air Street  
London  
W1B 5AN

**Independent auditors:**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
7 More London Riverside  
London  
SE1 2RT

# **GENERATION INVESTMENT MANAGEMENT LLP**

## **Members' Report**

Year ended 31 December 2013

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The members have pleasure in presenting their report and the audited consolidated financial statements of Generation Investment Management LLP ("Generation", "Partnership" or "LLP") and its subsidiaries (together the "Group") for the year ended 31 December 2013.

### **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 Conduct Authority. Generation Investment Management US LLP is registered with the U.S. Securities and Exchange Commission.

### **Branch outside the UK**

The Partnership has a branch in Spain.

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

The profit for the year attributable to members was £39.7m (2012: profit of £26.1m).

Net assets attributable to members as at 31 December 2013 were £31.7m (2012: net assets of £25.1m).

### **Future outlook**

Generation intends to continue to develop its people and culture, investment strategies 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 and operational risk. These are explored in more detail in note 18 to the financial statements. In accordance with the rules of the Financial Conduct 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](http://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, amongst other responsibilities is to review Generation's internal controls and regulatory compliance, monitor financial risks, review new business opportunities, 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 2013

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### **Designated members**

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

- D W Blood
- P M Harris (16 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. During 2013 the APS of eleven members (2012: sixteen) was guaranteed. 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 a range of factors including the anticipated needs of the LLP and the relevant 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 note 19.

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 meet its business and regulatory requirements.

### **Employee Incentive Benefit Plan (EIBP)**

To date Generation has invested £5.2m (2012: £4.8m) in an incentive benefit plan for members and employees. During the year £0.4m (2012: £0.4m) was invested. 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.

### **FCA Remuneration Code disclosures**

In accordance with the rules of the Financial Conduct Authority, it is the intention of the members to comply with the FCA Remuneration Code disclosures. This information is available at [www.generationim.com](http://www.generationim.com).

### **Carbon offsetting**

To minimise its impact on the environment Generation purchases voluntary offsets to cover the estimated emissions attributable to all employees, members, their partners and any children. In 2013 these voluntary offsets were generated from renewable energy and forestry projects.

# GENERATION INVESTMENT MANAGEMENT LLP

## Members' Report

Year ended 31 December 2013

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### The Generation Foundation

The members fund The Generation Foundation (the 'Foundation') from net distributable profits. During the year the Foundation made matched-giving awards in relation to eligible donations to charities by staff and members of the LLP and continued its advocacy and grant-giving activities. The Foundation plans to continue to be an advocate of sustainable capitalism.

### 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, subject to any material departures disclosed and explained in the financial statements. 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 designated members are aware, there is no relevant audit information of which the LLP's auditors are unaware. The designated members have taken all the steps they ought to have taken as designated 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:

20 Air Street  
London  
W1B 5AN

Signed on behalf of the members



P M Harris  
Designated member

Approved by the members on 31 March 2014.

# GENERATION INVESTMENT MANAGEMENT LLP

## Our Values

Year ended 31 December 2013

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### **Commitment to clients**

We are committed to providing exceptional client service – above all by delivering superior long-term performance – and by ensuring that our interests are fully aligned with those of our clients.

### **Integrity**

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

### **Excellence and innovation**

We aim for excellence in all that we do, and ensure that our investment processes encourage rigorous research, curiosity and continuous learning. We believe interdisciplinary, diverse teams are the most likely to yield new insights and produce the best results for our clients over the long-term.

### **Teamwork**

Teamwork underpins our one-firm culture. We consider each of the women and men with whom we work as individuals entitled to respect and dignity, and we recognise and reward their contributions on the basis of merit.

### **Communication**

Effective communication is critical to teamwork and to our relationships. We encourage and especially value hearing different viewpoints and respectful challenges to consensus opinions.

### **Diversity**

Diversity, in the broadest sense, helps drive our success. A welcoming work environment, where individuals can bring the totality of their experience and perspectives, is an invaluable contributor to greater economic success.

### **Sustainability research**

Our investment philosophy, which integrates sustainability research with traditional financial analysis, affords us the highest opportunity to deliver outstanding investment results.

### **Independence**

We have chosen an independent broad-based employee-owned partnership as an enduring business model. Similarly, we are committed to remaining a boutique investment firm focused on continual improvement in our performance.

### **Responsible citizenship**

We recognise and accept 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. We aim to reduce our environmental footprint where possible; we are mindful of ways to help our employees fulfil their personal responsibilities; and we actively encourage philanthropic engagement.

### **Sustainable Capitalism**

Through engagement with our clients, our portfolio companies and the broader financial markets, we strive to promote a more sustainable form of capitalism. The Generation Foundation is an important element of this work.

# **GENERATION INVESTMENT MANAGEMENT LLP**

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

Year ended 31 December 2013

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## **Report on the financial statements**

### **Our opinion**

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the group's and of the limited liability partnership's affairs as at 31 December 2013 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.

This opinion is to be read in the context of what we say in the remainder of this report.

### **What we have audited**

The group financial statements and limited liability partnership financial statements (the "financial statements"), which are prepared by Generation Investment Management LLP, comprise:

- the consolidated and limited liability partnership balance sheet as at 31 December 2013;
- the consolidated profit and loss account and statement of total recognised gains and losses for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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). In applying the financial reporting framework, the designated members have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 the limited liability 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.



# **GENERATION INVESTMENT MANAGEMENT LLP**

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

Year ended 31 December 2013

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In addition, we read all the financial and non-financial information in the Members' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Other matters on which we are required to report by exception**

### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 as applicable to limited liability partnerships we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

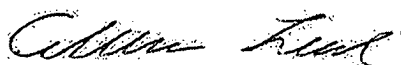
## **Responsibilities for the financial statements and the audit**

### **Our responsibilities and those of the members**

As explained more fully in the statement of members' responsibilities, the designated 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the members of the Partnership as a body 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 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.



Colleen Local (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

31 March 2014

# GENERATION INVESTMENT MANAGEMENT LLP

## Consolidated Profit and Loss Account

At 31 December 2013

	Note	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
<b>Turnover</b>	2	59,949	50,102
Administrative expenses		(18,875)	(19,050)
Other operating income	3	128	126
<b>Operating profit</b>	4	41,202	31,178
Related party loan written off	15	(69)	
Interest receivable		35	80
Unrealised gain on investments and derivatives	8,9,11	4,199	364
<b>Profit on ordinary activities before taxation</b>		45,367	31,622
<b>Tax on profit on ordinary activities</b>	5	(809)	(491)
<b>Profit for the financial year before members' remuneration and profit shares</b>		44,558	31,131
Members' remuneration charged as an expense	17	(4,870)	(5,068)
<b>Profit for the financial year available for discretionary division among members</b>		39,688	26,063

## Consolidated Statement of Total Recognised Gains and Losses

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
<b>Profit for the financial year available for division among members</b>	39,688	26,063
Translation loss on consolidation of foreign subsidiaries	(688)	(658)
<b>Total recognised gains and losses</b>	39,000	25,405

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, with the exception of the unrealised gains on investments and derivatives as disclosed in notes 8, 9 and 11.

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 £31.5m (2012: £18.6m).

The notes on pages 13 – 32 form part of these financial statements.

# GENERATION INVESTMENT MANAGEMENT LLP

## Consolidated Balance Sheet


At 31 December 2013

	Note	2013 £'000	2012 £'000
<b>Fixed assets</b>			
Tangible assets	7	2,446	2,731
Investments	8	5,517	2,686
		<u>7,963</u>	<u>5,417</u>
<b>Current assets</b>			
Debtors	10	17,520	16,411
Derivative financial instruments	11	412	-
Investments	9	15,318	8,930
Cash at bank and in hand		3,627	5,533
		<u>36,877</u>	<u>30,874</u>
<b>Creditors: Amounts falling due within one year</b>	12	<u>(6,978)</u>	<u>(5,267)</u>
<b>Net current assets</b>		<u>29,899</u>	<u>25,607</u>
<b>Total assets less current liabilities</b>		37,862	31,024
<b>Provisions for liabilities</b>	13	<u>(6,173)</u>	<u>(5,901)</u>
<b>Net assets attributable to members</b>		<u>31,689</u>	<u>25,123</u>
<b>Represented by:</b>			
<b>Members' other interests</b>			
Members' capital	19	11,000	10,839
Foreign exchange reserves	19	(1,078)	(390)
Other reserves	19	20,854	5,889
		<u>30,776</u>	<u>16,338</u>
<b>Total members' interests</b>			
Amounts due to members	19	913	8,785
Members' other interests	19	30,776	16,338
		<u>31,689</u>	<u>25,123</u>

The financial statements were approved by the designated members on 31 March 2014.



D W Blood  
Designated member



P M Harris  
Designated member

The notes on pages 13 – 32 form part of these financial statements.

# GENERATION INVESTMENT MANAGEMENT LLP

## Partnership Balance Sheet

At 31 December 2013

	Note	2013 £'000	2012 £'000
<b>Fixed assets</b>			
Tangible assets	7	2,093	2,299
Investments	8	7,421	4,590
		<u>9,514</u>	<u>6,889</u>
<b>Current assets</b>			
Debtors	10	10,088	9,560
Derivative financial instruments	11	412	-
Investments	9	14,448	8,216
Cash at bank and in hand		3,204	5,035
		<u>28,152</u>	<u>22,811</u>
<b>Creditors: Amounts falling due within one year</b>	12	<u>(6,381)</u>	<u>(10,508)</u>
<b>Net current assets</b>		<u>21,771</u>	<u>12,303</u>
<b>Total assets less current liabilities</b>		<u>31,285</u>	<u>19,192</u>
<b>Provisions for liabilities</b>	13	<u>(5,456)</u>	<u>(5,445)</u>
<b>Net assets attributable to members</b>		<u>25,829</u>	<u>13,747</u>
<b>Represented by:</b>			
Members' other interests			
Members' capital	19	13,127	12,966
Other reserves	19	11,789	(7,748)
		<u>24,916</u>	<u>5,218</u>
<b>Total members' interests</b>			
Amounts due to members	19	913	8,529
Members' other interests	19	24,916	5,218
		<u>25,829</u>	<u>13,747</u>

The financial statements were approved by the designated members on 31 March 2014.



D W Blood  
Designated member



P M Harris  
Designated member

The notes on pages 13 – 32 form part of these financial statements.

# GENERATION INVESTMENT MANAGEMENT LLP

## Consolidated Cash Flow Statement

Year ended 31 December 2013

	Notes	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
<b>Net cash inflow from operating activities</b>	(1)	41,663	34,790
<b>Returns on investments and servicing of finance</b>			
Interest received		35	80
<b>Net cash inflows from returns on investments and servicing of finance</b>		35	80
<b>Taxation</b>			
Overseas tax		(809)	(491)
<b>Net cash outflow from taxation</b>		(809)	(491)
<b>Capital expenditure and financial investment</b>			
Payments to acquire fixed assets		(58)	(2,113)
Receipt from sale of investments		481	14,032
Payments to acquire investments		(5,914)	(1,027)
<b>Net cash (outflow)/inflow from capital expenditure and financial investment</b>		(5,491)	10,892
<b>Transactions with members</b>			
Movement in amounts due to members		(7,872)	(9,956)
Capital introduced		156	-
Salaried remuneration of members		(4,870)	(5,068)
Drawings paid to members		(24,718)	(32,605)
<b>Net cash outflow from transactions with members</b>		(37,304)	(47,629)
<b>Financing</b>			
<b>Net decrease in cash and short term deposits at bank</b>	(2)	(1,906)	(3,016)

The notes on pages 13 – 32 form part of these financial statements.

# GENERATION INVESTMENT MANAGEMENT LLP

## Consolidated Cash Flow Statement (continued)

Year ended 31 December 2013

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
<b>(1) Reconciliation of operating profit to net cash outflow from operating activities</b>		
Operating profit	41,202	31,178
Depreciation	343	349
Unrealised loss on investment		364
(Increase)/ decrease in debtors	(1,109)	64
Increase in creditors	1,712	247
Increase in provisions	272	2,588
Decrease in foreign exchange reserves	(688)	(658)
Related party loan written off	(69)	
<b>Net cash inflow from operating activities</b>	<b>41,663</b>	<b>34,132</b>

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
<b>(2) Reconciliation of net cash flow to movements in net funds</b>		
Decrease in cash and short term deposit at bank	(1,906)	(3,016)
<b>Movement in net funds in the year</b>	<b>(1,906)</b>	<b>(3,016)</b>
<b>Net funds at beginning of year</b>	<b>5,533</b>	<b>8,549</b>
<b>Net funds at end of year</b>	<b>3,627</b>	<b>5,533</b>

### Analysis of changes in net funds

	1 January 2013 £'000	Cash flows £'000	Other non-cash changes £'000	31 December 2013 £'000
Net cash:				
Cash and short term deposit at bank	5,533	(1,906)	-	3,627
<b>Net funds</b>	<b>5,533</b>	<b>(1,906)</b>	<b>-</b>	<b>3,627</b>

The notes on pages 13 – 32 form part of these financial statements.

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

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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 and derivative financial instruments in accordance with the Companies Act 2006 as applied to Limited Liability Partnerships unless specified otherwise, 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 investment in New Forests Pty has been accounted for as a fixed asset investment measured at fair value rather than an associate undertaking, in accordance with the requirements of paragraph 49 of FRS 9, Associates and joint ventures. This treatment is a departure from the Companies Act requirement to equity account for associated undertakings. Generation views New Forests as an investment that is part of its ongoing development of a portfolio of investments that will be managed on a fair value basis for capital appreciation and/or income, and considers the value of the holding to be in its marketable value. The members consider the effect of equity accounting would not present a true and fair view in this instance.

The effect of departing from the Act cannot be reasonably quantified as the cost of providing equity accounted information would be onerous. However, the original cost of the investment is £2,677,430. The fair value included in the financial statements is £5,509,092.

The principal accounting policies, which have been applied consistently throughout the year, are set out below.

#### Going Concern

The Group has adequate financial resources and as a consequence, the members believe that the Group is well placed to manage its business risks successfully. After making inquiries, the members have a reasonable expectation that the group has adequate resources to continue in operational existence and meet its liabilities as they fall due for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

#### 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 LLP is omitted from the Group financial statements as permitted by section 408 of the Companies Act 2006.

#### 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.

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

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### **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 principle geographical segments (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.

The basis on which performance fees for investment advisory services are calculated may vary across clients and investment strategies. 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 the 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 beneficiaries.

### **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. Sublease income is accounted for on an equivalent basis.

### **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 Department of Finance, based on profits for the financial year.

Generation Investment Management Services Limited is also subject to corporate level taxes levied by New York City Department of Finance, New York State Department of Taxation and Finance and the Department of the Treasury Internal Revenue Service as a consequence of receiving partly sourced US income. Generation Investment Management Services Limited is also subject to UK corporation tax.

Deferred tax 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.



# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

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### **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 % or 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 interests in associate undertakings. Fund investments 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 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. Interests in associate undertakings are accounted for using the equity method unless this would not present a true and fair view.

### **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.

### **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provision is made for the present value of onerous lease commitments in respect of surplus property, after allowance for anticipated sublet rental income, and to restore premises to their original condition upon vacating them where such an obligation exists under the lease. Present value is based on discounted future cash flows, with the unwinding of that discount to be recognised as an expense within finance charges in future periods.

### **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.

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

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.

### Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Partnership after deducting all of its liabilities.

### Derivative financial instruments and hedge accounting

The Group's activities expose it to the financial risks of changes in foreign exchange rates.

The use of financial derivatives is governed by the Group's policies, which provide principles on the use of financial derivatives consistent with the Group's risk management strategy.

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently remeasured to fair value at each reporting date in accordance with FRS 23.

The Group's policy is to use derivative instruments (primarily foreign exchange time options) to convert a proportion of its turnover received in dollars into sterling in order to hedge the foreign exchange risk arising.

This is a change to the Group's prior year accounting policy where the commitment to sell currency necessary to settle a foreign currency receivable was viewed as part of the sale transaction and the forward contract rate was used to record that transaction. The estimated impact on the current year's financial statements as a result of the change amounts to an unrealised gain of £411,991.

## 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 2013 £'000	Year ended 31 December 2012 £'000
United Kingdom	32,261	28,154
United States	27,688	21,948
	<u>59,949</u>	<u>50,102</u>

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Management fees	45,577	38,943
Performance fees	14,372	11,159
	<u>59,949</u>	<u>50,102</u>

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

### 3. Other operating income

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Rent receivable	128	126

### 4. Operating profit

Operating profit is stated after charging:

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Depreciation of own fixed assets	343	349
Auditors' remuneration		
- Fees payable for the audit of the Partnership	46	45
- Fees payable for the audit of the Partnership's subsidiaries	33	
- Fees payable for other assurance services	91	99
- Fees payable for tax advisory services	69	340
- Fees payable for tax compliance services	97	264
- Fees payable for other non-audit services	3	2
Operating lease costs – buildings	2,094	2,313
Foreign exchange gain	(1,240)	(119)

### 5. Tax on profit on ordinary activities

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
<b>Current tax</b>		
UK Corporation tax at 23.3% (2012: 24.5%)		
Foreign current tax	771	456
	771	456
<b>Deferred tax</b>		
Origination of timing differences:		
Foreign deferred tax	38	35
	38	35
<b>Tax on profit on ordinary activities</b>	<b>809</b>	<b>491</b>

The tax for the period is lower (2012: lower) than the standard rate of corporation tax in the UK of 23.3% (2012: 24.5%) as members of the Partnership are not subject to UK corporation tax. However, certain subsidiary undertakings are subject to local corporate taxes largely arising on profits for the financial year as shown below. Generation Investment Management Services Limited is subject to corporation tax rate at the appropriate effective rate. For the year-ended 31 December 2013 the Company reported no taxable profits.

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Profit on ordinary activities before taxation	45,367	31,622
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23.3% (2012: 24.5%)	10,571	7,747
<b>Effects of:</b>		
Profits chargeable on members	(10,571)	(7,747)
Overseas taxation	771	456
<b>Total current tax</b>	<b>771</b>	<b>456</b>

### 6. Employees and remuneration

The average monthly number of employees of the Group during the financial year amounted to:

	Year ended 31 December 2013 Number	Year ended 31 December 2012 Number
Investment Team	11	9
Client Relationship Team	4	3
Infrastructure Team	18	17
<b>Total number of employees</b>	<b>33</b>	<b>29</b>

The aggregate staff costs were:

	£'000	£'000
Wages and salaries	6,105	4,794
Social security costs	792	616
Other pension costs	461	439
<b>Total</b>	<b>7,358</b>	<b>5,849</b>

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

### 7. Tangible fixed assets – the Group

	Leasehold premises £'000	Fittings and furnishings £'000	Office equipment £'000	Total £'000
<b>COST</b>				
At 1 January 2013	2,747	1,058	734	4,539
Additions	6	4	48	58
At 31 December 2013	2,753	1,062	782	4,597
<b>ACCUMULATED DEPRECIATION</b>				
At 1 January 2013	428	816	564	1,808
Charge for the year	211	29	103	343
At 31 December 2013	639	845	667	2,151
<b>NET BOOK VALUE</b>				
At 31 December 2013	2,114	217	115	2,446
At 31 December 2012	2,319	242	170	2,731

### Tangible fixed assets – the LLP

	Leasehold premises £'000	Fittings and furnishings £'000	Office equipment £'000	Total £'000
<b>COST</b>				
At 1 January 2013	2,146	970	668	3,784
Additions	6	4	48	58
At 31 December 2013	2,152	974	716	3,842
<b>ACCUMULATED DEPRECIATION</b>				
At 1 January 2013	193	770	522	1,485
Charge for the year	152	18	94	264
At 31 December 2013	345	788	616	1,749
<b>NET BOOK VALUE</b>				
At 31 December 2013	1,807	186	100	2,093
At 31 December 2012	1,953	200	146	2,299

# GENERATION INVESTMENT MANAGEMENT LLP

Notes to the Consolidated Financial Statements

Year ended 31 December 2013

## 8. Fixed asset investments – the Group

*Investments in Generation funds and investments*

	2013			2012		
	Generation funds £'000	Investments £'000	Total £'000	Generation funds £'000	Investments £'000	Total £'000
At 1 January	9	2,677	2,686	9	2,488	2,497
Additions	-	-	-	-	189	189
Unrealised gain on investments	-	2,831	2,831	-	-	-
At 31 December	9	5,508	5,517	9	2,677	2,686

## Fixed asset investments – the LLP

*Investments in Generation funds and investments*

	2013			2012		
	Generation funds £'000	Investments £'000	Total £'000	Generation funds £'000	Investments £'000	Total £'000
At 1 January	1,913	2,677	4,590	1,799	2,488	4,287
Additions	-	-	-	114	189	303
Unrealised gain on investments	-	2,831	2,831	-	-	-
Transfer	(1,913)	1,913	-	-	-	-
At 31 December	-	7,421	7,421	1,913	2,677	4,590

Subsidiary undertakings comprise the following:

Name	Country of registration	Nature of business
Generation Investment Management Services Limited	England	Supplier of staff services
Generation Investment Management US LLP	USA	Investment manager
Generation Investment Management Services LLC	USA	Supplier of staff services
Generation IM Climate Solutions GP (Scotland) Limited	Scotland	General partner
Generation IM Climate Solutions GP Limited	Cayman	General partner
GIM Credit Holdings (Luxembourg) S.à.r.l	Luxembourg	Fund management
GIM Credit (Luxembourg) S.à.r.l	Luxembourg	Fund management
Generation Investment Management S.à.r.l	Luxembourg	Fund management
Generation Investment Management (Scotland) GP Limited	Scotland	General partner

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

Generation Investment Management US I GP Limited	Cayman	General partner
Generation Investment Management II GP Limited	Jersey	General partner
Generation Investment Management US II GP Limited	Cayman	General partner
Generation Investment Management I GP Limited	Cayman	General partner
Generation Investment Management I GP LP	Cayman	General partner
Generation IM Investments (Cayman) Limited	Cayman	Fund management

Generation Investment Management Services Limited is managed on a unified basis and therefore is treated as a subsidiary and forms part of the Group.

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.

The LLP owns 100% of both Generation IM Climate Solutions GP (Scotland) Limited and Generation IM Climate Solutions GP Limited for the year ended 31 December 2013. Both entities were dormant for the year ended 31 December 2013.

The LLP owns 100% of GIM Credit Holdings (Luxembourg) S.à.r.l, Generation Investment Management S.à.r.l, Generation Investment Management (Scotland) GP Limited (dormant for the year ended 31 December 2013), Generation Investment Management US I GP Limited (dormant for the year ended 31 December 2013), Generation Investment Management II GP Limited, Generation Investment Management I GP Limited and Generation Investment Management US II GP Limited (dormant for the year ended 31 December 2013).

GIM Credit Holdings (Luxembourg) S.à.r.l in turn owns 100% of GIM Credit (Luxembourg) S.à.r.l. Generation Investment Management I GP Limited in turn is controlling General partner of Generation Investment Management I GP LP (dormant for the year ended 31 December 2013) which in turn owns 100% of Generation IM Investments (Cayman) Limited.

Other fixed asset investments:

The LLP holds 22.94% (2012: 22.94%) of the voting rights in New Forests Pty Limited represented by a combination of both preference and ordinary shares.

Name	Country of registration	Nature of business
New Forests Pty Limited	Australia	Fund management

### 9. Current asset investments – the Group

	2013 £'000	2012 £'000
At 1 January	8,930	22,124
Additions	5,914	837
Disposal	(481)	(14,395)
Unrealised gain on investments	955	364
At 31 December	15,318	8,930

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

### Current asset investments – the LLP

	2013 £'000	2012 £'000
At 1 January	8,216	21,460
Additions	5,800	672
Disposals	(458)	(14,267)
Unrealised gain on investments	890	351
At 31 December	14,448	8,216

Current asset investments comprise investments in sterling liquid money market funds and investments on behalf of the EIBP, details of which are given in note 14. The money market funds are used as diversification vehicles for holding short term operating cash and are valued at par, £10.7m (2012: £5.2m). 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

	2013		2012	
	The Group £'000	The LLP £'000	The Group £'000	The LLP £'000
Trade debtors	977	555	937	687
Other debtors	2,034	1,834	2,648	1,874
Deferred award	1,243	1,062	1,681	1,551
Prepayments and accrued income	13,266	6,637	11,145	5,448
	17,520	10,088	16,411	9,560

### 11. Derivative financial instruments

#### Group and Partnership

	2013		2012	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Forward foreign currency contracts	412			
	412			

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

	2013		2012	
	The Group £'000	The LLP £'000	The Group £'000	The LLP £'000
Trade creditors	453	403	1,026	1,011
VAT payable	476	476	32	32
PAYE and social insurance	1,657	1,657	1,251	1,251
Other creditors	2,373	2,257	1,273	6,709
Accruals and deferred income	2,019	1,588	1,685	1,505
	6,978	6,381	5,267	10,508



# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

### 13. Provisions for liabilities

#### The Group

	EIBP £'000	Deferred tax £'000	Onerous lease £'000	Total £'000
At 1 January 2013	4,081	237	1,583	5,901
Movement in year	1,197	32	(957)	272
At 31 December 2013	5,278	269	626	6,173

#### The LLP

	EIBP £'000	Onerous lease £'000	Total £'000
At 1 January 2013	3,862	1,583	5,445
Movement in year	968	(957)	11
At 31 December 2013	4,830	626	5,456

#### Employee Incentive Benefit Plan

Provisions for liabilities consist of amounts due to employees by the EIBP of £3.9m (2012: £3.1m) and National Insurance on the awards under the EIBP of £0.5m (2012: £0.4m).

#### Deferred tax

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

	The Group		The LLP	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Short-term timing differences	269	237	-	-
Deferred tax provision	269	237	-	-

#### Onerous lease

Provisions are recognised for obligations under property contracts that are onerous. The provisions are based on estimated future cash flows. The onerous lease provision covers residual lease commitments up to the end of the lease (the length remaining on the sole onerous lease being four years).

# GENERATION INVESTMENT MANAGEMENT LLP

Notes to the Consolidated Financial Statements

Year ended 31 December 2013

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## 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 three separate Employee Incentive Benefit Plans:

Generation IM Global Equity Plan and Generation IM Asia 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 and Generation IM Asia Equity Fund.
- For certain UK employees, LLP members and US citizen employees: the LLP has invested directly in the Generation IM Global Equity Fund and Generation IM Asia Equity Fund.

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 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.

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 Asia Fund LP and Generation IM Climate Solutions Fund, L.P. and Generation IM Fund PLC, including its sub-funds Generation IM Global Equity Fund and Generation IM Asia Fund. The Group is also appointed as the investment manager of Generation IM Credit Master Fund, FCP-SIF.

Generation IM Global Equity Fund and Generation IM Asia Fund are related parties 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 Asia Fund LP is a related party as a Group member serves as President of Generation Investment Management US LLP, the General Partner 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, Limited.

Generation IM Investments (Delaware) I LLC is a related party as two Group members served as directors during the year.

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

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Generation IM Investments (Scotland) L.P. is a related party as two Group members serve as directors of Generation Investment Management (Scotland) GP Limited.

GIM Credit Holdings US I L.P. is a related party as two Group members serve as directors of Generation Investment Management US I GP Limited.

Generation IM Credit Master Fund, FCP-SIF is a related party as three Group members serve as directors of Generation Investment Management S.à.r.l.

GIM Credit Holdings US II L.P. is a related party as two Group members serve as directors of Generation Investment Management US II GP Limited

Generation IM Credit Feeder Fund IV L.P. is a related party as three Group members serve as directors of Generation Investment Management I GP Limited.

Generation IM Credit Feeder Fund III L.P. is a related party as one Group member serves as director of Generation Investment Management II GP Limited.

Generation IM Credit Feeder Fund II L.P. is a related party as three Group members serve as directors of Generation Investment Management I GP Limited.

Generation IM Credit Feeder Fund I L.P. is a related party as three Group members serve as directors of Generation Investment Management I GP Limited.

The Group holds 10,304.887 (2012: 12,550.621) shares in Generation IM Global Equity Fund and 790.404 (2012: 790.404) shares in the Generation IM Asia Fund. RBC cees Trustee Limited holds 12,810.80 (2012: 9,605.590) shares in the Generation IM Global Equity Fund and 3,369.660 (2012: 3,369.660) shares in the Generation IM Asia Fund for the Group's EIBP in respect of certain UK members and employees. The Group holds interests amounting to £0.6m (2012: £0.6m) invested in Generation IM Global Equity Fund LLC and £0.04m (2012: £0.04m) invested in Generation IM Asia Fund LP on behalf of certain US members and employees, and called committed interests of £0.3m (2012: £0.3m) 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 notes 13 and 14).

The landlord of the leased property in Spain is a member of the Group. Rental payments made during the year amounted to £46,035 (2012: nil) and there were no balances payable as at the year end (2012: nil).

The Group has written off amounts due from Festivebright Limited, a Company whose directors are members of the Group. The balance written off related to US tax payments made on its behalf and amounted to £69,045.

The Group has taken advantage of the exemption from the requirement to disclose transactions with related parties that are wholly owned within the Group.

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

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 2013	31 December 2012	31 December 2013	31 December 2012
	£'000	£'000	£'000	£'000
Generation IM Global Equity Fund	17,697	15,246	4,329	3,758
Generation IM Global Equity Fund LLC	10,995	7,761	2,709	2,180
Generation IM Asia Fund	549	475	139	125
Generation IM Asia Fund LP	212	148	58	39
Generation IM Climate Solutions Fund, L.P.	2,856	5,100		
Generation IM Credit Feeder Fund I L.P.	67			
Generation IM Credit Feeder Fund II L.P.	26			
Generation IM Credit Feeder Fund III L.P.	228			
Generation IM Credit Feeder Fund IV L.P.	96			

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

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 2013	31 December 2012	31 December 2013	31 December 2012
	£'000	£'000	£'000	£'000
Caney Fork River LLC	128	126	-	-

### 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 2013	Year ended 31 December 2012
	Number	Number
Average number of members during the year	24	25
	£'000	£'000
Members drew guaranteed APS amounting to	4,870	5,068
Profit for the year attributable to members	£'000	£'000
The Group	39,688	26,443
The LLP	31,489	18,955

The profit attributable to the member with the largest entitlement, is estimated to be £4.5m (2012: £3.5m)

### 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, operational risk and capital risk.

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

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### *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.

The Groups investment in New Forests Pty Limited is 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.

#### *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 using financial derivatives as explained in note 1.

### *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.

### *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.

# GENERATION INVESTMENT MANAGEMENT LLP

Notes to the Consolidated Financial Statements

Year ended 31 December 2013

## 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
<b>Assets</b>				
Financial assets held at Fair Value through profit or loss:				
Investments	15,045	-	5,790	20,835
Derivatives used for hedging	-	412	-	412
<b>Total assets</b>	<b>15,045</b>	<b>412</b>	<b>5,790</b>	<b>21,247</b>

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.

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

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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 2013.

	£'000
Opening balance	2,677
Movement in the year	3,113
Closing balance	5,790

Gains or losses for assets held at the end of the reporting period are included in the profit and loss account.



# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

### 19. Reconciliation of movement in members' interests for the year to 31 December 2013

#### The Group

	Members' capital	Foreign exchange reserves	Other reserves	TOTAL	Amounts due to members	TOTAL 2013	TOTAL 2012
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Members' interests</b>							
<b>At 1 January</b>	10,839	(390)	5,889	16,338	8,785	25,123	42,279
Profit for the financial year available for division among members			39,688	39,688	-	39,688	26,063
Members' interest after profit for the year	10,839	(390)	45,577	56,026	8,785	64,811	68,342
Capital introduced	156	-	-	156	-	156	-
Foreign exchange loss	-	(688)	-	(688)	-	(688)	(658)
Drawings	-	-	(24,718)	(24,718)	-	(24,718)	(32,605)
Movement in amounts due to members	-	-	-	-	(7,872)	(7,872)	(9,956)
Transfer	5	-	(5)	-	-	-	-
<b>Members' interests At 31 December</b>	<b>11,000</b>	<b>(1,078)</b>	<b>20,854</b>	<b>30,776</b>	<b>913</b>	<b>31,689</b>	<b>25,123</b>

#### The LLP

	Members' capital	Other reserves	TOTAL	Amounts due to members	TOTAL 2013	TOTAL 2012
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Members' interests</b>						
<b>At 1 January</b>	12,966	(7,748)	5,218	8,529	13,747	33,188
Profit for the financial year available for division among members		31,489	31,489	-	31,489	18,575
Members' interest after profit for the year	12,966	23,741	36,707	8,529	45,236	51,763
Capital introduced	156	-	156	-	156	-
Drawings	-	(24,718)	(24,718)	-	(24,718)	(28,184)
Movement in amounts due to members	-	-	-	(7,616)	(7,616)	(9,832)
Transfer	5	12,766	12,771	-	12,771	-
<b>Members' interests At 31 December</b>	<b>13,127</b>	<b>11,789</b>	<b>24,916</b>	<b>913</b>	<b>25,829</b>	<b>13,747</b>

# GENERATION INVESTMENT MANAGEMENT LLP

## Notes to the Consolidated Financial Statements

Year ended 31 December 2013

### 20. Commitments under operating leases

As at 31 December 2013 the Group and LLP had annual commitments under non-cancellable operating leases as follows:-

Annual commitments	2013		2012	
	The Group £'000	The LLP £'000	The Group £'000	The LLP £'000
<b>Buildings</b>				
Operating leases which expire:				
Within 1 year	-	-	-	-
Within 2 to 5 years	192	192	-	-
After 5 years	2,573	1,919	3,399	2,733
<b>Other operating leases</b>				
Operating leases which expire:				
Within 1 year	-	-	4	4
Within 2 to 5 years	6	6	-	-

On 17 December 2007 the LLP entered into an agreement to lease office space in London. The lease expires on 15 April 2018. The rental payments are £0.8m per annum and commenced 28 January 2009.

On 31 October 2011 the LLP entered into a separate agreement to lease office space in London. The lease expires on 31 October 2026. The rental payments are £1.9m per annum and are due to commence on 7 April 2014.

The LLP entered into an agreement to lease office space in Madrid, Spain. The lease expires on 28 December 2018. The rental payments are €72,000 per annum and commenced in April 2013. The above figures are estimated using the Sterling/ Euro rate at 31 December 2013.

On 15 April 2008 the US LLP entered into an agreement to lease 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 per annum with a review at the end of year five. The above figures are estimated using the sterling/dollar rate at 31 December 2013.