

REG NO: 1371973

**NEWTON INVESTMENT MANAGEMENT
LIMITED**

FINANCIAL STATEMENTS

31 DECEMBER 2003



NEWTON INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the year ended 31 December 2003.

By an Elective Resolution dated 6 July 1995, the company dispensed with the laying of report and accounts before the company in general meeting, in accordance with the provisions of section 252 of the Companies Act 1985 (as amended).

Pursuant to section 253 of that Act, **notice is hereby given** THAT any member or auditor of the company may by notice in writing deposited at the registered office of the company before 31 October 2004 require that a general meeting be held for the purpose of laying the accounts and reports before the company.

PRINCIPAL ACTIVITY

The principal activity of the company is investment management.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The company has continued to operate profitably and there have been no significant changes in the company's operations during the year.

On 9 March 2004, the company issued 2,000,000 new shares of £1 each at par.

EMPLOYEES

The company is committed to a best practice approach to consult with employees on matters that are likely to affect their interests. Information of general interest to employees is provided through the intranet, newsletters and notices and general dialogue between line managers and employees, all of which seeks to achieve a common awareness of the financial and economic factors which impact on the company's performance.

The company adopts a total rewards management and pay for performance philosophy. Any remuneration elements awarded in respect of bonus and long-term incentives are discretionary based on individual and business unit performance together with other factors as determined from time to time in the context of the company's operating plans and results. All employees have the opportunity to purchase stock through the Mellon Employee Stock Purchase Plan and eligible employees participate in stock incentive arrangements in the ultimate parent company, Mellon Financial Corporation, which encourages closer involvement of employees in the affairs of the company and its financial performance.

The group is also committed to providing relevant training and development opportunities, to include achievement of professional qualifications, to enable each employee to successfully fulfil their job responsibilities, and in addition, meet regulatory requirements. The company adheres to the principles of Equal Employment Opportunity, and is committed to facilitating employment opportunities for people with disabilities.

NEWTON INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT – continued

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £11,349,000 (2002 - £5,677,000). During the year no dividends were paid to the ordinary shareholders. (2002 - nil).

DIRECTORS AND THEIR INTERESTS

The directors in office during the year and to the date of this report were as follows:

C D Campbell (Chief Operating Officer)
H L Morrissey (Chief Executive Officer)
R J Munroe (Chief Investment Officer)
M G Rayward

CHARITABLE CONTRIBUTIONS

During the year, the company made charitable contributions amounting to £13,629 (2002 - £22,897). No political contributions were made by the company.

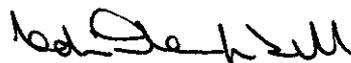
REGISTERED OFFICE

On 13 April 2004, the company changed the registered office of the company to Mellon Financial Centre, 160 Queen Victoria Street, London, EC4V 4LA.

AUDITORS

By an elective resolution dated 6 July 1995, the company dispensed with the obligation to appoint auditors annually in accordance with the provisions of section 386 of the Companies Act 1985 (as amended). Accordingly, KPMG Audit Plc will continue to act as auditors of the company.

By Order of the Board



Colin D Campbell
Director
27 April 2004

160 Queen Victoria Street
LONDON
EC4V 4LA

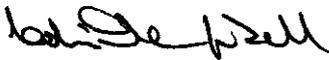
NEWTON INVESTMENT MANAGEMENT LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for the year. In preparing these financial statements, the directors 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



Colin D Campbell
Director
27 April 2004

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF NEWTON INVESTMENT MANAGEMENT LIMITED

We have audited the financial statements on pages 5 to 17.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants and Registered Auditor
8 Salisbury Square
LONDON
EC4Y 8BB

29 April 2004

NEWTON INVESTMENT MANAGEMENT LIMITED

ACCOUNTING POLICIES

ACCOUNTING CONVENTION

The financial statements have been prepared under the historical cost convention and comply with the applicable Accounting Standards.

REVENUE

Revenue comprises management fees, commissions receivable and other income.

Management fees are fees paid for the management of investment portfolios. These are charged, based on various formulae linked to the value of portfolios at invoicing dates and investment performance in current and previous periods. Credit for the element of management fees linked to performance, which is usually billed on a four year rolling basis, is taken when such fees in respect of each calendar year are due and receivable in accordance with management agreements.

DEPRECIATION

Depreciation is provided by the company to write off the cost of tangible fixed assets less estimated residual value by equal instalments over their estimated useful economic lives as follows:

The current policy is:

Motor vehicles	- 5 years
Computer hardware	- 3 years
Purchased computer software	- 5 years

OPERATING LEASES

Costs in respect of operating leases are charged in arriving at the operating profit over the term of the lease.

FINANCE LEASES

Assets held under finance leases are capitalised at their fair value on the inception of the leases and depreciated over the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease on a straight line basis and are charged to the profit and loss account.

DEFERRED TAXATION

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed out by the balance sheet date, except as otherwise required by FRS 19.

NEWTON INVESTMENT MANAGEMENT LIMITED

ACCOUNTING POLICIES - continued

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the balance sheet date. Gains or losses on translation are included in the profit and loss account.

PENSION CONTRIBUTIONS

The company operates a non-contributory, money purchase scheme for eligible employees of the company and of other subsidiaries of Mellon Europe Limited. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

GOODWILL

Purchased goodwill is amortised on a straight line basis over its useful economic life.

RELATED PARTY DISCLOSURES

The company is exempt from the requirement of FRS8 'Related Party Disclosures' to disclose transactions with entities that are part of the same group because it is a wholly owned subsidiary of the ultimate UK parent company, Mellon Europe Limited, and the consolidated financial statements are publicly available.

NEWTON INVESTMENT MANAGEMENT LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003

	<u>Notes</u>	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000	<u>Year to</u> <u>31 December</u> <u>2002</u> £'000
Revenue	1	81,270	71,772
Administrative expenses		(66,439)	(63,570)
Other operating income		132	2
Operating profit	2	14,963	8,204
Interest receivable	4	921	531
Interest payable	5	(2)	(19)
Profit on ordinary activities before taxation		15,882	8,716
Taxation	6	(4,533)	(3,039)
Retained earnings for the year	20	11,349	5,677
Retained earnings brought forward		33,678	28,001
Retained earnings carried forward		45,027	33,678

Revenue and operating profit relate solely to continuing operations. There have been no operations discontinued nor any additions to operations during the year.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company has not prepared a statement of total recognised gains and losses as all gains and losses are reflected in the profit and loss account.

NOTE OF HISTORICAL COST PROFITS AND LOSSES

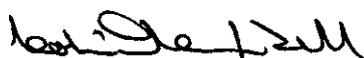
There is no difference between the profit on ordinary activities before taxation and the retained earnings for the year stated above, and their historical cost equivalents.

NEWTON INVESTMENT MANAGEMENT LIMITED

BALANCE SHEET
AT 31 DECEMBER 2003

		<u>31 December</u>	<u>31 December</u>
		<u>2003</u>	<u>2002</u>
	<u>Notes</u>	<u>£'000</u>	<u>£'000</u>
FIXED ASSETS			
Intangible assets	7	14,387	16,540
Tangible assets	8	367	626
Investments	9	44	2
		<u>14,798</u>	<u>17,168</u>
CURRENT ASSETS			
Debtors	10	38,438	63,648
Cash at bank and in hand		47,822	12,848
		<u>86,260</u>	<u>76,496</u>
CREDITORS: amounts falling due within one year	11	(21,057)	(26,433)
NET CURRENT ASSETS		<u>65,203</u>	<u>50,063</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>80,001</u>	<u>67,231</u>
CREDITORS: amounts falling due after more than one year	12	(1,437)	(11)
Provision for liabilities and charges	14	(37)	(42)
NET ASSETS		<u>78,527</u>	<u>67,178</u>
CAPITAL AND RESERVES			
Called-up share capital	15	33,500	33,500
Profit and loss account		45,027	33,678
EQUITY SHAREHOLDERS' FUNDS	20	<u>78,527</u>	<u>67,178</u>

The financial statements on pages 5 to 17 were approved by the board of directors on 27 April 2004 and were signed on its behalf by:



Colin D Campbell
Director

NEWTON INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

1 REVENUE	<u>Year to</u>	<u>Year to</u>
	<u>31 December</u>	<u>31 December</u>
	<u>2003</u>	<u>2002</u>
	<u>£'000</u>	<u>£'000</u>
Management fees	74,445	63,867
Commission receivable and other income	7,843	8,859
Total turnover	82,288	72,726
Discount, commission, stamp duty and other costs	(1,018)	(954)
	81,270	71,772
2 OPERATING PROFIT		
	<u>Year to</u>	<u>Year to</u>
	<u>31 December</u>	<u>31 December</u>
	<u>2003</u>	<u>2002</u>
	<u>£'000</u>	<u>£'000</u>
Operating profit is stated after (crediting)/charging:		
Amortisation of goodwill	1,643	570
Charges paid under operating leases	130	150
Charges paid under finance leases	5	3
Depreciation of owned tangible fixed assets (See note 8)	140	394
Depreciation of leased tangible fixed assets (See note 8)	114	117
(Profit) on disposal of fixed assets	(24)	(5)
Auditors' remuneration - Audit	102	94
- Non-audit services	101	73
3 STAFF COSTS		
	<u>No:</u>	<u>No:</u>
Average number of employees (including directors) by activity:		
Investment management services	327	311
	<u>Year to</u>	<u>Year to</u>
	<u>31 December</u>	<u>31 December</u>
	<u>2003</u>	<u>2002</u>
	<u>£'000</u>	<u>£'000</u>
Wages and salaries	29,758	23,911
Social security costs	3,477	2,732
Pension costs (See note 18)	2,711	2,418
Other staff costs	1,353	1,516
	37,299	30,577

NEWTON INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003– continued

3 STAFF COSTS – continued	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000	<u>Year to</u> <u>31 December</u> <u>2002</u> £'000
<u>Directors:</u>		
Aggregate emoluments	1,602	1,367
Company pension contributions to money purchase schemes	<u>119</u>	<u>81</u>

No directors exercised share options in the ultimate parent company, Mellon Financial Corporation, during the year (2002: nil).

Retirement benefits are accruing to all directors under a money purchase pension scheme.

<u>Highest paid director:</u>	£'000	£'000
Aggregate emoluments	601	501
Company pension contributions to money purchase scheme	<u>23</u>	<u>22</u>

The highest paid director did not exercise any share options in the ultimate parent company Mellon Financial Corporation during the year.

4 INTEREST RECEIVABLE	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000	<u>Year to</u> <u>31 December</u> <u>2002</u> £'000
Interest earned on short term deposits	797	487
Interest received on repayment of tax	<u>124</u>	<u>44</u>
	<u>921</u>	<u>531</u>

NEWTON INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003- continued

5	INTEREST PAYABLE	<u>Year to</u>	<u>Year to</u>
		<u>31 December</u>	<u>31 December</u>
		<u>2003</u>	<u>2002</u>
		<u>£'000</u>	<u>£'000</u>
	On overdrafts and bank loans	-	11
	On revised tax payment	(4)	3
	On finance leases	5	3
	Other	1	2
		<u>2</u>	<u>19</u>
6	TAXATION	<u>Year to</u>	<u>Year to</u>
		<u>31 December</u>	<u>31 December</u>
		<u>2003</u>	<u>2002</u>
		<u>£'000</u>	<u>£'000</u>
	UK Corporation tax @ 30% (2002: 30%)	5,765	2,784
	(Over)/Under provision in prior years	(250)	214
	Current tax	5,515	2,998
	Deferred tax (See note 17)	(982)	41
		<u>4,533</u>	<u>3,039</u>

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30%.
The differences are explained below:

Profit on ordinary activities before taxation	<u>15,882</u>	<u>8,716</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002 – 30%)	4,765	2,615
Effects of:		
Expenses not deductible for tax purposes	17	216
Depreciation for the year in excess of capital allowances	8	54
Other timing differences	975	(101)
Adjustments to tax in respect of previous years	(250)	214
	<u>5,515</u>	<u>2,998</u>

NEWTON INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003– continued

7 INTANGIBLE FIXED ASSETS

	<u>Goodwill</u> £'000
<u>Cost</u>	
At 1 January 2003	17,359
Additions during the year	340
Revaluation of deferred consideration	(850)
At 31 December 2003	<u>16,849</u>
<u>Amortisation</u>	
At 1 January 2003	819
Charge for the year	1,643
At 31 December 2003	<u>2,462</u>
<u>Net Book Value</u>	
At 31 December 2003	<u>14,387</u>
At 31 December 2002	<u>16,540</u>

8 TANGIBLE FIXED ASSETS

	<u>Motor Vehicles</u> £'000	<u>Computer Equipment</u> £'000	<u>Total</u> £'000
<u>Cost</u>			
At 1 January 2003	838	381	1,219
Additions during the year	161	-	161
Disposals during the year	(416)	-	(416)
At 31 December 2003	<u>583</u>	<u>381</u>	<u>964</u>
<u>Depreciation</u>			
At 1 January 2003	360	233	593
Charge for the year	140	114	254
Eliminated on disposals	(250)	-	(250)
At 31 December 2003	<u>250</u>	<u>347</u>	<u>597</u>
<u>Net Book Value</u>			
At 31 December 2003	<u>333</u>	<u>34</u>	<u>367</u>
At 31 December 2002	<u>478</u>	<u>148</u>	<u>626</u>

The net book value of computer equipment represents assets held under finance leases.

NEWTON INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003- continued

9 FIXED ASSET INVESTMENTS

	<u>Unlisted</u> <u>Investments</u> £'000
<u>Cost</u>	
At 1 January 2003	37
Additions during the year	48
At 31 December 2003	<hr/> 85 <hr/>
<u>Depreciation</u>	
At 1 January 2003	35
Charge for the year	6
At 31 December 2003	<hr/> 41 <hr/>
<u>Net Book Value</u>	
At 31 December 2003	<hr/> 44 <hr/>
At 31 December 2002	<hr/> 2 <hr/>

Unlisted investments are included at directors' valuation.

NEWTON INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003- continued

10 DEBTORS

	<u>31 December</u> <u>2003</u> £'000	<u>31 December</u> <u>2002</u> £'000
Trade debtors	2,390	1,705
Prepayments and accrued income	26,879	20,046
Amounts due from group companies	4,535	37,398
Other debtors	4,634	4,499
	<u>38,438</u>	<u>63,648</u>

Included in other debtors is £4,277,000 (2002 - £3,295,000) deferred tax recoverable. (See note 17)

11 CREDITORS: amounts falling due within one year

	<u>31 December</u> <u>2003</u> £'000	<u>31 December</u> <u>2002</u> £'000
Trade creditors	17	399
Corporation tax	4,616	5,365
Other taxes and social security costs	1,733	1,543
Accruals and other creditors	11,530	15,198
Amounts due to group companies	3,143	3,884
Obligations under finance leases (see note 13)	18	44
	<u>21,057</u>	<u>26,433</u>

12 CREDITORS: amounts falling due after more than one year

	<u>31 December</u> <u>2003</u> £'000	<u>31 December</u> <u>2002</u> £'000
Accruals and other creditors	1,437	-
Obligations under finance leases (see note 13)	-	11
	<u>1,437</u>	<u>11</u>

NEWTON INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003– continued

13 OBLIGATIONS UNDER FINANCE LEASES

	<u>31 December</u> <u>2003</u> £'000	<u>31 December</u> <u>2002</u> £'000
Within one year	18	44
Between one and five years	-	11
Obligations under finance leases	<u>18</u>	<u>55</u>

14 PROVISION FOR LIABILITIES AND CHARGES

	<u>31 December</u> <u>2003</u> £'000	<u>31 December</u> <u>2002</u> £'000
<u>Provision for future property costs</u>		
Brought forward	42	342
Additions in the year	-	7
Provision utilised	(5)	(247)
Transferred to UK parent company	-	(60)
Carried forward	<u>37</u>	<u>42</u>

15 CALLED UP SHARE CAPITAL

	<u>31 December</u> <u>2003</u> £'000	<u>31 December</u> <u>2002</u> £'000
Authorised, allotted, called up and fully paid:		
33,500,000 (2002: 33,500,000) Ordinary Shares of £1 each	<u>33,500</u>	<u>33,500</u>

16 FINANCIAL COMMITMENTS

	<u>Land & Buildings</u>	
	<u>31 December</u> <u>2003</u> £'000	<u>31 December</u> <u>2002</u> £'000
At the end of the year the company had the following commitments for the coming year under non-cancellable operating leases:-		
Expiring in less than one year	392	679
Expiring in one to five years	1,907	2,009
Expiring in more than five years	730	730
	<u>3,029</u>	<u>3,418</u>

NEWTON INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003- continued

17 DEFERRED TAXATION

	Potential (Asset)	
	<u>31 December</u> <u>2003</u> £'000	<u>31 December</u> <u>2002</u> £'000
Tax effect of timing differences:-		
Excess of tax allowances over depreciation	(79)	(72)
Other	(4,198)	(3,223)
	<u>(4,277)</u>	<u>(3,295)</u>

The movements on the provision for deferred tax are as follows:-

	<u>31 December</u> <u>2003</u> £'000	<u>31 December</u> <u>2002</u> £'000
	Balance brought forward	(3,295)
Transfer to profit and loss account	(982)	41
Balance carried forward	<u>(4,277)</u>	<u>(3,295)</u>

18 PENSION OBLIGATIONS

The company contributes to a money purchase scheme in the United Kingdom. The total pension cost for the company in respect of the year to 31 December 2003 was £2,711,147 (2002: £2,417,959) – (See note 3). At the year end, contributions of £221,687 were payable to the fund (2002: £214,184).

19 CASH FLOW STATEMENT

The company is exempt from the requirement of FRS1 (Revised 1996) 'Cash Flow Statements' to prepare a cash flow statement because it is a wholly owned subsidiary of a company which prepares consolidated financial statements which are publicly available.

20 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>31 December</u> <u>2003</u> £'000	<u>31 December</u> <u>2002</u> £'000
	Shareholders' funds brought forward	67,178
New share capital issued	-	22,500
Retained earnings for the year	11,349	5,677
Shareholders' funds carried forward	<u>78,527</u>	<u>67,178</u>

NEWTON INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003– continued

21 ULTIMATE CONTROLLING COMPANY

The largest group in which the results of the company are consolidated is that headed by Mellon Financial Corporation, a company incorporated in The United States of America. The consolidated accounts of the ultimate parent company may be obtained from:

The Secretary
Mellon Financial Corporation
One Mellon Center, Room 4826
Pittsburgh
PA 15258-0001
USA

The directors regard Mellon Europe Limited, a company incorporated in Great Britain and registered in England and Wales, as the ultimate UK parent company. Copies of the consolidated financial statements of the ultimate UK parent company may be obtained from:

The Secretary
Mellon Europe Limited
Mellon Financial Centre
160 Queen Victoria Street
London
EC4V 4LA