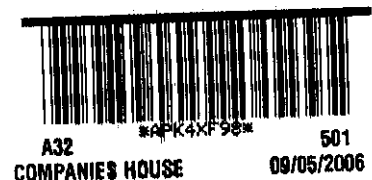


Company No. 1371973

**NEWTON INVESTMENT MANAGEMENT
LIMITED**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
31 DECEMBER 2005**



NEWTON INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Newton Investment Management Limited ("the Company") for the year ended 31 December 2005.

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.

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. In addition the Company participates in the Mellon Employee Information & Consultation Forum. The Forum will build on existing communication channels and provide more formal opportunities for dialogue between management and employees.

The Company adopts a total rewards and pay for performance remuneration 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 key personnel are eligible to participate in a Phantom Equity incentive scheme which links their compensation to the growth in value and financial performance of Newton.

The Company 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.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £18,573,389 (2004: £13,676,552). The directors did not recommend a final ordinary dividend for 2005(2004: £nil).

On 7 February 2006, the Company declared and paid £25million to Newton Management Limited, the immediate parent company as an interim dividend for 2006.

DIRECTORS' REPORT – continued

DIRECTORS AND THEIR INTERESTS

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

H L Morrissey
R J Munroe
M G Rayward
A T Downs

None of the directors who held office at the end of the financial period have any disclosable interest in the shares of the Company.

CHARITABLE CONTRIBUTIONS

During the year, the Company made charitable contributions amounting to £26,108 (2004: £14,395). The Company made no political contributions during the year.

AUDITORS

Pursuant to a shareholders' resolution, the Company is not obliged to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office.

By Order of the Board



E Akadiri
Secretary

28 April 2006

160 Queen Victoria Street
LONDON
EC4V 4LA

NEWTON INVESTMENT MANAGEMENT LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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.

NEWTON INVESTMENT MANAGEMENT LIMITED

Independent auditors' report to the members of Newton Investment Management Limited

We have audited the financial statements of Newton Investment Management Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

As described in the Statement of Directors' Responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 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
Registered Auditor

22 April 2006

8 Salisbury Square
London
EC4Y 8BB

NEWTON INVESTMENT MANAGEMENT LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>Notes</u>	<u>Year to</u> <u>31 December</u> <u>2005</u> £'000	<u>Year to</u> <u>31 December</u> <u>2004</u> £'000
Revenue	2	99,899	81,389
Administrative expenses	4	(75,754)	(63,736)
Operating profit	3	24,145	17,653
Net interest receivable	5	2,378	1,808
Profit on ordinary activities before taxation		26,523	19,461
Tax on profit on ordinary activities	6	(7,950)	(5,785)
Profit for the financial year		18,573	13,676

Revenue and operating profit relate solely to continuing operations.

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

Notes 1 to 18 are integral to these financial statements.

NEWTON INVESTMENT MANAGEMENT LIMITED**BALANCE SHEET**
AT 31 DECEMBER 2005

		<u>31 December</u> <u>2005</u> £'000	<u>31 December</u> <u>2004</u> £'000
	<u>Notes</u>		
FIXED ASSETS			
Intangible assets	7	11,179	12,856
Tangible assets	8	299	243
		<u>11,478</u>	<u>13,099</u>
CURRENT ASSETS			
Debtors	9	35,997	26,700
Cash at bank and in hand		72,393	47,706
		<u>108,390</u>	<u>74,406</u>
CREDITORS: amounts falling due within one year	10	(23,712)	(16,787)
NET CURRENT ASSETS		<u>84,678</u>	<u>57,619</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>96,156</u>	<u>70,718</u>
CREDITORS: amounts falling due after more than one year	11	(8,354)	(1,484)
Provision for liabilities and charges	12	(26)	(31)
NET ASSETS		<u>87,776</u>	<u>69,203</u>
CAPITAL AND RESERVES			
Called-up share capital	13	35,500	35,500
Profit and loss account		52,276	33,703
EQUITY SHAREHOLDERS' FUNDS	17	<u>87,776</u>	<u>69,203</u>

Notes 1 to 18 are integral to these financial statements.

The financial statements were approved by the board of directors on 28 April 2006 and were signed on its behalf by:



H L Morrissey
Director

NEWTON INVESTMENT MANAGEMENT LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2005

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

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. The company has only one class of business in the UK.

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 receivable in accordance with management agreements.

DEPRECIATION

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

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

OPERATING LEASES

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

FINANCE LEASES

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and represent a constant proportion of the balance of capital repayments outstanding.

NEWTON INVESTMENT MANAGEMENT LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2005

1. ACCOUNTING POLICIES - continued

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

PENSION CONTRIBUTIONS

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in the respect of the accounting period.

GOODWILL

Purchased goodwill is amortised on a straight-line basis over its useful economic life of ten years.

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 of that Company are publicly available.

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 Mellon Financial Corporation prepares publicly available consolidated financial statements which include the cashflow of the company.

NEWTON INVESTMENT MANAGEMENT LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2005

2 REVENUE

	<u>Year to</u> <u>31 December</u> <u>2005</u> <u>£'000</u>	<u>Year to</u> <u>31 December</u> <u>2004</u> <u>£'000</u>
Management fees	94,172	76,068
Commission receivable and other income	6,979	6,751
Total turnover	<u>101,151</u>	<u>82,819</u>
Discount, commission, stamp duty and other costs	<u>(1,252)</u>	<u>(1,430)</u>
	<u>99,899</u>	<u>81,389</u>

3 OPERATING PROFIT

	<u>Year to</u> <u>31 December</u> <u>2005</u> <u>£'000</u>	<u>Year to</u> <u>31 December</u> <u>2004</u> <u>£'000</u>
Operating profit is stated after (crediting)/charging:		
Amortisation of goodwill	1,677	1,700
Charges paid under operating leases – Land and Buildings	91	190
Depreciation - Owned tangible fixed assets (Note 8)	75	94
Leased tangible fixed assets	-	34
Profit on disposal of fixed assets	(46)	(17)
Auditors' remuneration - Audit	-	112
- Non-audit services	-	45

Auditors' remuneration for 2005 was borne by a fellow group undertaking.

4 STAFF COSTS

	<u>No:</u>	<u>No:</u>
The average number of persons employed by the Company (including directors) during the year, by activity, was as follows:		
Investment management services	<u>323</u>	<u>319</u>
	<u>Year to</u> <u>31 December</u> <u>2005</u> <u>£'000</u>	<u>Year to</u> <u>31 December</u> <u>2004</u> <u>£'000</u>
Wages and salaries	36,552	25,861
Social security costs	3,543	2,721
Pension costs (See note 16)	2,815	2,904
Other staff costs	1,487	1,192
	<u>44,397</u>	<u>32,678</u>

NEWTON INVESTMENT MANAGEMENT LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2005 – continued

4 STAFF COSTS – continued	<u>Year to</u> <u>31 December</u> <u>2005</u> <u>£'000</u>	<u>Restated</u> <u>Year to</u> <u>31 December</u> <u>2004</u> <u>£'000</u>
<u>Directors:</u>		
Aggregate emoluments	2,800	2,002
Company pension contributions to money purchase schemes	<u>115</u>	<u>135</u>

One director exercised share options in the ultimate parent company, Mellon Financial Corporation, during the year (2004: nil).

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

<u>Highest paid director:</u>	<u>£'000</u>	<u>£'000</u>
Aggregate emoluments	1,309	819
Company pension contributions to money purchase scheme	<u>24</u>	<u>23</u>

Bonus awards for the year ended 31 December 2004 were disclosed in Note 4 on a cash basis. Aggregate emoluments have been restated to disclose bonus awards on an accruals basis.

5 NET INTEREST RECEIVABLE	<u>Year to</u> <u>31 December</u> <u>2005</u> <u>£'000</u>	<u>Year to</u> <u>31 December</u> <u>2004</u> <u>£'000</u>
Interest receivable on short term deposits	2,379	1,817
Interest payable – Other	<u>(1)</u>	<u>(9)</u>
	<u>2,378</u>	<u>1,808</u>

Included in interest receivable was an amount of £2,179,496 (2004: £1,702,868) on cash deposits with Mellon Bank NA, a fellow group undertaking.

NEWTON INVESTMENT MANAGEMENT LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2005

6 TAXATION

	<u>Year to</u> <u>31 December</u> <u>2005</u> £'000	<u>Year to</u> <u>31 December</u> <u>2004</u> £'000
UK Corporation tax @ 30%	9,906	2,998
Over provision in prior years	(168)	(136)
Current tax	9,738	2,862
Deferred tax (See note 15)	(1,788)	2,923
	<u>7,950</u>	<u>5,785</u>

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 30%.
The differences are explained below:

Profit on ordinary activities before taxation	<u>26,523</u>	<u>19,461</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	7,957	5,838
Effects of:		
Expenses not deductible for tax purposes	161	59
Depreciation for the year in excess of capital allowances	-	26
Other timing differences	1,788	(2,925)
Over provision in prior years	(168)	(136)
	<u>9,738</u>	<u>2,862</u>

7 INTANGIBLE FIXED ASSETS

<u>Cost</u>	<u>Goodwill</u> £'000
At 1 January 2005	17,018
Additions during the year	-
At 31 December 2005	<u>17,018</u>
<u>Amortisation</u>	
At 1 January 2005	4,162
Charge for the year	1,677
At 31 December 2005	<u>5,839</u>
<u>Net Book Value</u>	
At 31 December 2005	<u>11,179</u>
At 31 December 2004	<u>12,856</u>

NEWTON INVESTMENT MANAGEMENT LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2005 – continued

8 TANGIBLE FIXED ASSETS

	<u>Motor Vehicles</u> £'000	<u>Computer Equipment</u> £'000	<u>Total</u> £'000
<u>Cost</u>			
At 1 January 2005	451	381	832
Additions during the year	71	107	178
Disposals during the year	(195)	-	(195)
At 31 December 2005	<u>327</u>	<u>488</u>	<u>815</u>
<u>Depreciation</u>			
At 1 January 2005	208	381	589
Charge for the year	75	-	75
Disposals	(148)	-	(148)
At 31 December 2005	<u>135</u>	<u>381</u>	<u>516</u>
<u>Net Book Value</u>			
At 31 December 2005	<u>192</u>	<u>107</u>	<u>299</u>
At 31 December 2004	<u>243</u>	<u>-</u>	<u>243</u>

9 DEBTORS

	<u>31 December 2005</u> £'000	<u>31 December 2004</u> £'000
Trade debtors	824	1,073
Prepayments and accrued income	20,839	16,996
Amounts due from group companies	10,790	6,616
Other debtors	3,544	2,015
	<u>35,997</u>	<u>26,700</u>

Included in other debtors is £3,142,000 (2004: £1,354,000) of deferred tax asset. (See note 15).

Included in prepayments and accrued income is an amount of £697,448 (2004: £nil) that will be receivable after one year.

10 CREDITORS: amounts falling due within one year

	<u>31 December 2005</u> £'000	<u>31 December 2004</u> £'000
Trade creditors	742	176
Corporation tax	4,705	368
Other taxes and social security costs	361	1,305
Accruals and other creditors	13,823	10,244
Amounts due to group companies	4,081	4,694
	<u>23,712</u>	<u>16,787</u>

NEWTON INVESTMENT MANAGEMENT LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2005

11 CREDITORS: amounts falling due after more than one year

	<u>31 December</u> <u>2005</u> £'000	<u>31 December</u> <u>2004</u> £'000
Accruals and other creditors	8,354	1,484
	<u>8,354</u>	<u>1,484</u>

12 PROVISION FOR LIABILITIES AND CHARGES

	<u>31 December</u> <u>2005</u> £'000	<u>31 December</u> <u>2004</u> £'000
<u>Provision for future property costs</u>		
At beginning of year	31	37
Utilising during year	(5)	(6)
At end of year	<u>26</u>	<u>31</u>

13 CALLED UP SHARE CAPITAL

	<u>31 December</u> <u>2005</u> £'000	<u>31 December</u> <u>2004</u> £'000
Authorised, allotted, called up and fully paid:		
35,500,000 (2004: 35,500,000) Ordinary Shares of £1 each	<u>35,500</u>	<u>35,500</u>

14 FINANCIAL COMMITMENTS

	<u>Land & Buildings</u> <u>31 December</u> <u>2005</u> £'000	<u>31 December</u> <u>2004</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 more than five years	<u>110</u>	<u>110</u>
	<u>110</u>	<u>110</u>

NEWTON INVESTMENT MANAGEMENT LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2005

15 DEFERRED TAXATION ASSET

	<u>31 December</u> <u>2005</u> £'000	<u>31 December</u> <u>2004</u> £'000
<i>Tax effect of timing differences:</i>		
Excess of depreciation over tax allowances	10	69
Long-term incentive compensation charged in profit and loss account	3,060	1,217
Other	72	68
	<u>3,142</u>	<u>1,354</u>

The movement in the deferred tax asset balance is as follows:

	<u>31 December</u> <u>2005</u> £'000	<u>31 December</u> <u>2004</u> £'000
Balance brought forward	1,354	4,277
Credit/(charge) in profit and loss account	1,788	(2,923)
Balance carried forward	<u>3,142</u>	<u>1,354</u>

16 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 2005 was £2,814,999 (2004: £2,903,608) – (See note 4). At the year-end, contributions of £239,722 were payable to the fund (2004: £226,105).

The company is a member of a larger group pension scheme providing benefits based on final pensionable pay. Because the Company was unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS17 'Retirement benefits', the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme.

The most recent valuation of the UK defined benefit scheme was at 1 January 2004. Following this valuation the UK defined benefit was shown to have a deficit of £10,831,000.

NEWTON INVESTMENT MANAGEMENT LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2005****17 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	<u>31 December</u> <u>2005</u> £'000	<u>31 December</u> <u>2004</u> £'000
Shareholders' funds brought forward	69,203	78,527
New share capital issued	-	2,000
Profit for the financial year	18,573	13,676
Ordinary dividends	-	(25,000)
Shareholders' funds carried forward	<u>87,776</u>	<u>69,203</u>

NEWTON INVESTMENT MANAGEMENT LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2005 – continued

18 ULTIMATE CONTROLLING COMPANY

The ultimate holding company as at 31 December 2005 was 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 largest group in which the Company's results are consolidated in the UK are those for Mellon International Limited, a company registered in England and Wales. Copies of accounts for Mellon International Limited can be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.