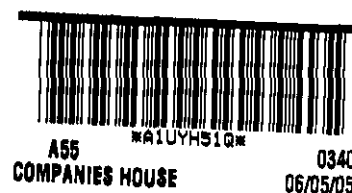


**Company No. 1371973**

**NEWTON INVESTMENT MANAGEMENT  
LIMITED**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2004**



## **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 2004.

### **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.

### **RESULTS AND DIVIDENDS**

The profit for the year after taxation amounted to £13,676,552 (2003: £11,349,005). The directors do not recommend a final ordinary dividend (2003: £nil). On 29 June 2004, the directors approved the payment of an interim dividend of £25,000,000.

## NEWTON INVESTMENT MANAGEMENT LIMITED

### DIRECTORS' REPORT – continued

#### DIRECTORS AND THEIR INTERESTS

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

C D Campbell (Resigned 30 June 2004)  
H L Morrissey  
R J Munroe  
M G Rayward  
A T Downs (Appointed 30 June 2004)

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 £14,395 (2003: £13,629). No political contributions were made by the Company.

#### REGISTERED OFFICE

On 19 April 2004, the Company changed its registered office to Mellon Financial Centre, 160 Queen Victoria Street, London, EC4V 4LA.

#### AUDITORS

By resolutions dated 6 July 1995, the members of the Company adopted an elective regime in accordance with Sections 366A, 252 and 386 of the Companies Act 1985 dispensing with the previous statutory requirement of holding annual general meetings, laying accounts before the Company in general meetings and reappointing auditors annually.

The last resolution will lead to the continuing appointment of KPMG Audit Plc as auditors of the Company until further notice.

By Order of the Board



J Striker  
Secretary

27 April 2005

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 period. 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.

**REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT PLC, TO THE MEMBERS  
OF NEWTON INVESTMENT MANAGEMENT LIMITED**

We have audited the financial statements on pages 5 to 16.

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 audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the 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 2004 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

**28** April 2005

8 Salisbury Square

LONDON

EC4Y 8BB

## **NEWTON INVESTMENT MANAGEMENT LIMITED**

### **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.

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 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:

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.

#### **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.

## **NEWTON INVESTMENT MANAGEMENT LIMITED**

### **ACCOUNTING POLICIES - continued**

#### **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 non-contributory, money purchase scheme for eligible employees of the company.

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 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 a company which prepares consolidated financial statements which are publicly available.

**NEWTON INVESTMENT MANAGEMENT LIMITED**

**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

	Notes	Year to 31 December 2004 £'000	Year to 31 December 2003 £'000
Revenue	1	81,389	81,270
Administrative expenses		(63,747)	(66,439)
Other operating income		11	132
Operating profit	2	17,653	14,963
Interest receivable	4	1,817	921
Interest payable	5	(9)	(2)
Profit on ordinary activities before taxation		19,461	15,882
Taxation	6	(5,785)	(4,533)
Profit on ordinary activities after taxation		13,676	11,349
Ordinary dividends		(25,000)	–
Retained (deficit)/earnings for the year	17	(11,324)	11,349
Retained earnings brought forward		45,027	33,678
Retained earnings carried forward		33,703	45,027

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.




**NEWTON INVESTMENT MANAGEMENT LIMITED**

**BALANCE SHEET**

**AT 31 DECEMBER 2004**

		<u>31 December</u> <u>2004</u> £'000	<u>31 December</u> <u>2003</u> £'000
	<u>Notes</u>		
FIXED ASSETS			
Intangible assets	7	12,856	14,387
Tangible assets	8	243	367
		<u>13,099</u>	<u>14,754</u>
CURRENT ASSETS			
Debtors	9	26,700	38,482
Cash at bank and in hand		47,706	47,822
		<u>74,406</u>	<u>86,304</u>
CREDITORS: amounts falling due within one year	10	(16,787)	(21,057)
NET CURRENT ASSETS		<u>57,619</u>	<u>65,247</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		70,718	80,001
CREDITORS: amounts falling due after more than one year	11	(1,484)	(1,437)
Provision for liabilities and charges	12	(31)	(37)
NET ASSETS		<u>69,203</u>	<u>78,527</u>
CAPITAL AND RESERVES			
Called-up share capital	13	35,500	33,500
Profit and loss account		33,703	45,027
EQUITY SHAREHOLDERS' FUNDS	17	<u>69,203</u>	<u>78,527</u>

The financial statements on pages 5 to 16 were approved by the board of directors on 27 April 2005 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 2004**

<b>1 REVENUE</b>	<u>Year to</u> <u>31 December</u> <u>2004</u> £'000	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000
Management fees	76,068	74,445
Commission receivable and other income	6,751	7,843
Total turnover	82,819	82,288
Discount, commission, stamp duty and other costs	(1,430)	(1,018)
	81,389	81,270
<b>2 OPERATING PROFIT</b>	<u>Year to</u> <u>31 December</u> <u>2004</u> £'000	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000
Operating profit is stated after (crediting)/charging:		
Amortisation of goodwill	1,700	1,643
Amortisation of investments	5	6
Charges paid under operating leases – Land and Buildings	190	130
Depreciation - Owned tangible fixed assets (Note 8)	94	140
Leased tangible fixed assets (Note 8)	34	114
Profit on disposal of fixed assets	(17)	(24)
Auditors' remuneration - Audit	112	102
- Non-audit services	45	101
<b>3 STAFF COSTS</b>	<u>No:</u>	<u>No:</u>
Average number of employees (including directors) by activity:		
Investment management services	319	327
	<u>Year to</u> <u>31 December</u> <u>2004</u> £'000	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000
Wages and salaries	25,861	29,758
Social security costs	2,721	3,477
Pension costs (See note 16)	2,904	2,711
Other staff costs	1,192	1,353
	32,678	37,299

**NEWTON INVESTMENT MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2004– continued**

**3 STAFF COSTS – continued**

	<u>Year to</u> <u>31 December</u> <u>2004</u> £'000	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000
<u>Directors:</u>		
Aggregate emoluments	1,802	1,602
Company pension contributions to money purchase schemes	<u>135</u>	<u>119</u>

No directors exercised share options in the ultimate parent company, Mellon Financial Corporation, during the year (2003: nil).

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

<u>Highest paid director:</u>	£'000	£'000
Aggregate emoluments	644	601
Company pension contributions to money purchase scheme	<u>23</u>	<u>23</u>

**4 INTEREST RECEIVABLE**

	<u>Year to</u> <u>31 December</u> <u>2004</u> £'000	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000
Interest earned on short term deposits	1,817	797
Interest received on repayment of tax	<u>–</u>	<u>124</u>
	<u>1,817</u>	<u>921</u>

Included in interest receivable was an amount of £1,702,868 (2003: £743,345) 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 2004- continued**

**5 INTEREST PAYABLE**

	<u>Year to</u> <u>31 December</u> <u>2004</u> £'000	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000
On overdrafts and bank loans	6	-
On revised tax payment	3	(4)
On finance leases	-	5
Other	-	1
	<u>9</u>	<u>2</u>

**6 TAXATION**

	<u>Year to</u> <u>31 December</u> <u>2004</u> £'000	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000
UK Corporation tax @ 30%	2,998	5,765
Over provision in prior years	(136)	(250)
Current tax	2,862	5,515
Deferred tax (See note 15)	2,923	(982)
	<u>5,785</u>	<u>4,533</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>19,461</u>	<u>15,882</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	5,838	4,765
Effects of:		
Expenses not deductible for tax purposes	59	17
Depreciation for the year in excess of capital allowances	26	8
Other timing differences	(2,925)	975
Over provision in prior years	(136)	(250)
	<u>2,862</u>	<u>5,515</u>

**NEWTON INVESTMENT MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2004— continued**

**7 INTANGIBLE FIXED ASSETS**

	<u>Goodwill</u>
<u>Cost</u>	£'000
At 1 January 2004	16,849
Additions during the year	169
At 31 December 2004	<u>17,018</u>
 <u>Amortisation</u>	
At 1 January 2004	2,462
Charge for the year	1,700
At 31 December 2004	<u>4,162</u>
 <u>Net Book Value</u>	
At 31 December 2004	<u>12,856</u>
 At 31 December 2003	<u>14,387</u>

**8 TANGIBLE FIXED ASSETS**

	<u>Motor Vehicles</u>	<u>Computer Equipment</u>	<u>Total</u>
	£'000	£'000	£'000
<u>Cost</u>			
At 1 January 2004	583	381	964
Additions during the year	87	-	87
Disposals during the year	(219)	-	(219)
At 31 December 2004	<u>451</u>	<u>381</u>	<u>832</u>
 <u>Depreciation</u>			
At 1 January 2004	250	347	597
Charge for the year	94	34	128
Disposals	(136)	-	(136)
At 31 December 2004	<u>208</u>	<u>381</u>	<u>589</u>
 <u>Net Book Value</u>			
At 31 December 2004	<u>243</u>	<u>-</u>	<u>243</u>
 At 31 December 2003	<u>333</u>	<u>34</u>	<u>367</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 2004- continued****9 DEBTORS**

	<u>31 December</u> <u>2004</u> £'000	<u>31 December</u> <u>2003</u> £'000
Trade debtors	1,073	2,390
Prepayments and accrued income	16,996	26,923
Amounts due from group companies	6,616	4,535
Other debtors	2,015	4,634
	<u>26,700</u>	<u>38,482</u>

Included in other debtors is £1,354,000 (2003: £4,277,000) of deferred tax asset. (See note 15)

**10 CREDITORS: amounts falling due within one year**

	<u>31 December</u> <u>2004</u> £'000	<u>31 December</u> <u>2003</u> £'000
Trade creditors	176	17
Corporation tax	368	4,616
Other taxes and social security costs	1,305	1,733
Accruals and other creditors	10,244	11,530
Amounts due to group companies	4,694	3,143
Obligations under finance leases	-	18
	<u>16,787</u>	<u>21,057</u>

**11 CREDITORS: amounts falling due after more than one year**

	<u>31 December</u> <u>2004</u> £'000	<u>31 December</u> <u>2003</u> £'000
Accruals and other creditors	1,484	1,437
	<u>1,484</u>	<u>1,437</u>

## NEWTON INVESTMENT MANAGEMENT LIMITED

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004– continued

#### **12 PROVISION FOR LIABILITIES AND CHARGES**

	<u>31 December</u> <u>2004</u> £'000	<u>31 December</u> <u>2003</u> £'000
<u>Provision for future property costs</u>		
Brought forward	37	42
Provision utilised	(6)	(5)
Carried forward	<u>31</u>	<u>37</u>

#### **13 CALLED UP SHARE CAPITAL**

	<u>31 December</u> <u>2004</u> £'000	<u>31 December</u> <u>2003</u> £'000
Authorised, allotted, called up and fully paid:		
35,500,000 (2003: 33,500,000) Ordinary Shares of £1 each	<u>35,500</u>	<u>33,500</u>

On 9 March 2004, the authorised share capital was increased by £2,000,000 through the creation of 2,000,000 ordinary shares of £1 each.

Subsequently, on 9 March 2004, 2,000,000 ordinary shares of £1 each, with an aggregate nominal value of £2,000,000 were issued fully paid for cash of £2,000,000.

#### **14 FINANCIAL COMMITMENTS**

	<u>Land &amp; Buildings</u> <u>31 December</u> <u>2004</u> £'000	<u>31 December</u> <u>2003</u> £'000
<i>At the end of the year the company had the following commitments for the coming year under non-cancellable operating leases:</i>		
Expiring in more than five years	<u>110</u>	<u>110</u>
	<u>110</u>	<u>110</u>

As reported in the 2003 annual report and accounts, the financial commitments outstanding as at 31 December 2003 amounted to £3,029,000. The difference of £2,919,000 has now been correctly reported in the annual report and accounts of Newton Management Limited, a fellow group undertaking.

## **NEWTON INVESTMENT MANAGEMENT LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **For the year ended 31 December 2004- continued**

#### **15 DEFERRED TAXATION ASSET**

	<u>31 December</u> <u>2004</u> £'000	<u>31 December</u> <u>2003</u> £'000
<i>Tax effect of timing differences:</i>		
Excess of depreciation over tax allowances	69	79
Share options charged in profit and loss account	1,217	4,142
Other	68	56
	<u>1,354</u>	<u>4,277</u>

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

	<u>31 December</u> <u>2004</u> £'000	<u>31 December</u> <u>2003</u> £'000
Balance brought forward	4,277	3,295
(Charge)/credit in profit and loss account	(2,923)	982
Balance carried forward	<u>1,354</u>	<u>4,277</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 2004 was £2,903,608 (2003: £2,711,147) – (See note 3). At the year-end, contributions of £226,105 were payable to the fund (2003: £221,687).

#### **17 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	<u>31 December</u> <u>2004</u> £'000	<u>31 December</u> <u>2003</u> £'000
Shareholders' funds brought forward	78,527	67,178
New share capital issued	2,000	-
Retained (deficit)/earnings for the year	(11,324)	11,349
Shareholders' funds carried forward	<u>69,203</u>	<u>78,527</u>



**NEWTON INVESTMENT MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2004– continued**

**18 ULTIMATE CONTROLLING COMPANY**

The ultimate holding company as at 31 December 2004 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 Europe Limited, a company registered in England and Wales. Copies of accounts for Mellon Europe Limited can be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.