

Fidelity Investments Life Insurance Limited

Annual Report
for the year ended 31 December 2003

Registered in England number: 3406905



Fidelity Investments Life Insurance Limited

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Fidelity Investments Life Insurance Limited

Directors, officers and principal advisors

| | |
|--------------------------|--|
| Directors | R D Corley S M Haslam (appointed 29 July 2003) K H McBrien R R Rohda P Smail D Stewart R M Sylvain (resigned 31 December 2003) C A Williams |
| Chief Executive | D Stewart |
| Company Secretary | Fidelity Investments International |
| Appointed Actuary | M Wilkinson Milliman UK Finsbury Tower 103-105 Bunhill Row London EC1Y 8LZ |
| Solicitors | Slaughter and May One Bunhill Row London EC1Y 8YY |
| Auditors | PricewaterhouseCoopers LLP Southwark Towers 32 London Bridge Street London SE1 9SY |
| Bankers | Barclays Bank plc PO Box 46116 London EC4N 8WB |
| Registered Office | Oakhill House 130 Tonbridge Road Hildenborough Kent TN11 9DZ |

Fidelity Investments Life Insurance Limited

Report of the Directors for the year ended 31 December 2003

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

Principal activity

The principal activity of the company is to provide pensions insurance products linked to funds managed by the Fidelity International Limited Group of companies.

Business review and future developments

During the course of 2003, the company added a further 43 new clients (2002: 56 new clients) bringing total assets held to cover linked liabilities to £1,206,024,445 (2002: £690,551,578). During 2003, the Company added five further Class 4 (1%) Funds, three client-specific funds and one generic fund (2002: added eight Class 4 (1%) Funds and five client-specific funds).

During 2004 the Company intends to continue to focus their selling efforts on the UK corporate pensions market while building the organisational and systems infrastructure for expansion.

Results, dividends and transfer to reserves

The profit for the year, after taxation, amounted to £378,000 (2002: £423,000). This amount has been transferred to reserves.

No dividends were declared during the year. (2002: Nil)

Directors

The directors of the Company at 31 December 2003 are listed on page 2. The directors held office during the year as indicated on page 2.

Directors' interests in shares

None of the directors had any interests in the Company during the period.

Auditors

PricewaterhouseCoopers LLP have signified their willingness to continue in office.

Fidelity Investments Life Insurance Limited

Report of the Directors for the year ended 31 December 2003

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period that 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 those 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; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the board of Directors
and signed on behalf of the board



S M Haslam
Chairman of the board
24 March 2004

Fidelity Investments Life Insurance Limited

Independent Auditors' report to the members of Fidelity Investments Life Insurance Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and related notes which have been prepared in accordance with the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 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 in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises of only the Director's report.

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 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors,
London
24 March 2004

Fidelity Investments Life Insurance Limited

Profit & loss account for the year ended 31 December 2003

Technical account – Long term Business

| | Notes | 2003 £'000 | 2002 £'000 |
|---|-------|---------------|---------------|
| Earned premiums, net of reinsurance | | | |
| Gross premiums written | 2 | 379,325 | 382,905 |
| Investment income | 3 | 18,224 | 6,516 |
| Unrealised gains on investments | 3 | 162,512 | - |
| Other technical income, net of reinsurance | 1 (d) | 6,598 | 4,260 |
| | | 566,659 | 393,681 |
| Claims incurred, net of reinsurance | | | |
| Claims paid | | (42,218) | (22,570) |
| Change in other technical provisions, net of reinsurance | | | |
| Long term business provision | | - | 150 |
| Technical provision for linked liabilities | | (515,472) | (227,871) |
| Net operating expenses | 4 | (6,289) | (4,058) |
| Unrealised losses on investments | 3 | - | (134,008) |
| Investment expenses and charges | 3 | (2,364) | (4,965) |
| Taxation attributable to the Long Term Business | 5 | (95) | (108) |
| Balance on the long term business technical account | | 221 | 251 |

Fidelity Investments Life Insurance Limited

Profit & loss account for the year ended 31 December 2003

Non – Technical account

| | Notes | 2003 £'000 | 2002 £'000 |
|--|-------|---------------|---------------|
| Balance on the long term business technical account | | 221 | 251 |
| Tax credit attributable to balance on long term business technical account | 5 | 95 | 108 |
| Shareholders' pre tax profit from long term business | | 316 | 359 |
| Investment income | 3 | 161 | 151 |
| Unrealised gains on investments | 3 | 64 | 95 |
| Profit on ordinary activities before tax | | 541 | 605 |
| Tax on profit on ordinary activities | 5 | (163) | (182) |
| Retained profit for the financial year | | 378 | 423 |

All of the amounts above are in respect of continuing activities.

Fidelity Investments Life Insurance Limited

Balance sheet as at 31 December 2003

| | Notes | 2003 £'000 | 2002 £'000 |
|---|--------|------------------|----------------|
| ASSETS | | | |
| Investments | | | |
| Other financial investments | 6 | 2,224 | 4,254 |
| Assets held to cover linked liabilities | 7 | 1,206,024 | 690,552 |
| Debtors | | | |
| Other debtors | 8 | 1,781 | 1,103 |
| Other assets | | | |
| Cash at bank and in hand | | 86 | 337 |
| Prepayments and accrued income | | | |
| Other prepayments and accrued income | | 265 | 234 |
| Total assets | | 1,210,380 | 696,480 |
| LIABILITIES | | | |
| Capital and reserves | | | |
| Called up share capital | 9 | 2,000 | 2,000 |
| Profit and loss account | 10 | 1,142 | 764 |
| Total shareholders' funds – Equity interest | 11 | 3,142 | 2,764 |
| Technical provisions | | | |
| Technical provisions for linked liabilities | 1e(ii) | 1,206,024 | 690,552 |
| | | 1,206,024 | 690,552 |
| Provisions for other risks and charges | 13 | 45 | 45 |
| Creditors | | | |
| Other creditors, including taxation and social security | 14 | 1,091 | 3,000 |
| Accruals and deferred income | | 78 | 119 |
| Total liabilities | | 1,210,380 | 696,480 |

The financial statements on pages 6 to 16 were approved by the Board of Directors on 24 March 2004 and were signed on its behalf by:-

Director

Director

Fidelity Investments Life Insurance Limited

Notes to the financial statements for the year ended 31 December 2003

1. Principal accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to the Companies Act 1985. The financial statements have been prepared in accordance with applicable accounting standards and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") dated December 1998.

The Company's results are consolidated with FMR Corp., accordingly, the Company has elected to utilise the exemption provided by Financial Reporting Standard 1 (Revised 1996), Cash Flow Statements and has not provided a Cash Flow Statement.

(b) Premiums

Unit linked premiums are accounted for when the liability to the client is established.

(c) Claims

Maturity claims and annuities are recognised when the claim becomes due for payment. Surrenders are accounted for when paid, or if earlier on the date when the policy ceases to be included within the calculation of the long term business provisions and/or the technical provision for linked liabilities. Death claims and all other claims are accounted for when notified. Claims payable include all related internal and external handling costs.

(d) Other technical income

Other technical income relates to management fees and record keeping fees earned in connection with the investment management and administration of contributions received.

(e) Technical provision for linked liabilities

- (i) The long-term business provision is computed by a Fellow of the Institute of Actuaries having due regard to the actuarial principles laid down in the Life Framework Directive (Council Directive 92/96/EEC). Adjustments to the valuation for the statutory solvency purposes are made to eliminate certain reserves, notably the contingency reserve, for the purposes of these financial statements. The valuation basis adopted is the value of the linked assets plus a sterling reserve for future expenses in excess of income (management charges and record keeping fees) from existing business. The assumptions reflect a prudent assessment of the future experience of unit growth, mortality and expenses including margins. These margins should emerge into surplus in future periods.
- (ii) The technical provision for linked liabilities represents the unit liabilities on linked business.

Fidelity Investments Life Insurance Limited

Notes to the financial statements for the year ended 31 December 2003

(f) Investment return

Investment return comprises investment income, including realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or if they have been previously valued, their valuation at the last balance sheet date.

Investment return relating to investments which are directly connected with the carrying on of long term business is recorded in the long term business technical account. The investment return arising in relation to all other investments is recorded in the non technical account.

(g) Investments

Listed investments held are stated at market value. Other investments are included at directors' valuation.

(h) Taxation

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year.

Deferred tax assets and liabilities are recognised in accordance with the provisions of FRS19, issued in December 2000. Deferred tax is recognised in respect of all material timing differences that have originated but not reversed by the balance sheet date. The deferred tax asset has not been discounted.

Fidelity Investments Life Insurance Limited

Notes to the financial statements for the year ended 31 December 2003

2. Segmental Analysis

| | 2003 £'000 | 2002 £'000 |
|---------------------------------|---------------|---------------|
| Gross written premiums | | |
| Linked pensions | | |
| Non-profit group pension | 379,325 | 382,905 |
| Periodic premiums | 179,044 | 137,301 |
| Single premiums | 200,281 | 245,604 |
| | 379,325 | 382,905 |
| Gross new premium income | | |
| Linked pensions | | |
| Non-profit group pension | 169,815 | 270,474 |
| Periodic premiums | 30,097 | 46,837 |
| Single premiums | 139,718 | 223,637 |
| | 169,815 | 270,474 |

There were no reinsurance premiums payable during the financial period. All premiums relate to contracts concluded in the United Kingdom.

Fidelity Investments Life Insurance Limited

Notes to the financial statements for the year ended 31 December 2003

3. Investment return

| | 2003 £'000 | 2002 £'000 |
|---|---------------|---------------|
| Technical account | | |
| Investment Income: | | |
| Fund distributions received | 18,218 | 6,510 |
| ICF Investment Income | 6 | 6 |
| Net unrealised gains on investments | 162,512 | - |
| | 180,736 | 6,516 |
| Investment expenses and charges: | | |
| Net loss on the realisation of investments | (2,364) | (4,965) |
| Net unrealised losses on investments | - | (134,008) |
| Net investment return included in the long term business technical account | 178,372 | (132,457) |
| Non-technical account | | |
| Investment Income: | | |
| Interest income | 161 | 151 |
| Net unrealised gains on investments | 64 | 95 |
| Net investment return included in the non-technical account | 225 | 246 |
| Total investment return | 178,655 | (132,211) |

4. Net operating expenses

| | 2003 £'000 | 2002 £'000 |
|--|---------------|---------------|
| Administrative expenses | 6,289 | 4,058 |
| Administrative expenses include the following: | | |
| | 2003 £'000 | 2002 £'000 |
| Directors' fees | 27 | 33 |
| Auditors' remuneration | | |
| Audit | 49 | 49 |
| Overprovision in the prior year | (20) | - |
| Other services | 14 | 42 |
| | 43 | 91 |

No remuneration is paid to the directors in respect of their services to the company, other than fees, as detailed in note 15(b)(iii).

Fidelity Investments Life Insurance Limited

Notes to the financial statements for the year ended 31 December 2003

5. Taxation

| | 2003 £'000 | 2002 £'000 |
|--|---------------|---------------|
| Tax on profit on long term technical account | | |
| UK corporation tax at 30% (2002: 30%) | | |
| Current tax on income for the period | 95 | 63 |
| Deferred tax: | | |
| Total deferred tax | 0 | 45 |
| Total tax charged in the long term technical account | 95 | 108 |
| | | |
| | 2003 £'000 | 2002 £'000 |
| Tax on profit on non technical account | | |
| UK corporation tax at 30% (2001: 30%) | | |
| Current tax on income for the period | 68 | 74 |
| Tax attributable to balance on the long term technical account | 95 | 108 |
| Tax on profit on ordinary activities | 163 | 182 |

6. Investments

| | Market Value 2003 £'000 | Cost 2003 £'000 | Market Value 2002 £'000 | Cost 2002 £'000 |
|--|----------------------------------|-----------------------|----------------------------------|-----------------------|
| Units in collective investment scheme – listed | 1,724 | 1,205 | 2,354 | 1,905 |
| Deposit with a credit institution | 500 | 500 | 1,900 | 1,900 |
| | 2,224 | 1,705 | 4,254 | 3,805 |

7. Assets held to cover linked liabilities

| | Market Value 2003 £'000 | Cost 2003 £'000 | Market Value 2002 £'000 | Cost 2002 £'000 |
|---|----------------------------------|-----------------------|----------------------------------|-----------------------|
| Assets held to cover linked liabilities | 1,206,024 | 1,178,450 | 690,552 | 843,706 |

Fidelity Investments Life Insurance Limited

Notes to the financial statements for the year ended 31 December 2003

8. Other debtors

| | 2003 £'000 | 2002 £'000 |
|------------------------------------|---------------|---------------|
| Fees due | 177 | 255 |
| Income tax debtor | 431 | 637 |
| Amounts owed by group undertakings | 1,173 | 211 |
| | 1,781 | 1,103 |

9. Called up share capital

| | 2003 £'000 | 2002 £'000 |
|--|---------------|---------------|
| Authorised | | |
| 2,000,000 ordinary shares of £1 each | 2,000 | 2,000 |
| Allocated, called up and fully paid | | |
| 2,000,000 ordinary shares of £1 each | 2,000 | 2,000 |

10. Profit and loss account

| | 2003 £'000 | 2002 £'000 |
|---------------------------------|---------------|---------------|
| Balance at 1 January | 764 | 341 |
| Profit for the financial period | 378 | 423 |
| Balance at 31 December | 1,142 | 764 |

11. Reconciliation of movement in shareholders' funds

| | 2003 £'000 | 2002 £'000 |
|--|---------------|---------------|
| Retained profit for the financial year | 378 | 423 |
| Opening shareholders' funds | 2,764 | 2,341 |
| Shareholders' funds at 31 December | 3,142 | 2,764 |

Fidelity Investments Life Insurance Limited

Notes to the financial statements for the year ended 31 December 2003

12. Assets attributable to the long term business fund

At 31 December 2003, the total amount of assets representing the long-term fund is £1,204,150,987 (2002: £690,552,000).

13. Provisions for other risks and charges

- (a) The provision for deferred tax, included within the provision for other risks and charges, comprises:

| | Technical account | | Non-technical account | |
|---|-------------------|-----------|-----------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | £'000 | £'000 | £'000 | £'000 |
| Provisions and other timing differences | 45 | 45 | - | - |
| Provision for deferred tax | 45 | 45 | - | - |

- (b) Movements in the deferred tax balances are analysed as follows:

| | Technical account | | Non-technical account | |
|---|-------------------|-----------|-----------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | £'000 | £'000 | £'000 | £'000 |
| Provision at 1 January | 45 | - | - | - |
| Amounts charged/(credited) to the profit and loss account | - | 45 | - | - |
| Provision at 31 December | 45 | 45 | - | - |

14. Other creditors, including taxation and social security

| | 2003 | 2002 |
|------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Other creditors | 82 | 511 |
| Taxation | 163 | 184 |
| Amounts owed to group undertakings | 846 | 2,305 |
| | 1,091 | 3,000 |

15. Related party transactions

(a) Transactions involving directors or key management

No contract of significance existed at any time during the period in which a director or key manager was materially interested or which requires disclosure as a related party transaction as defined under FRS 8 "Related Party Disclosures".

Fidelity Investments Life Insurance Limited

Notes to the financial statements for the year ended 31 December 2003

(b) Transactions involving other related parties

- (i) The company has entered into an agreement with Fidelity Defined Contributions Limited Partnership ('FDCLP') to receive insurance agency and other insurance intermediary services with effect from 1 July 2001. Under the terms of the agreement, payments in consideration of the service are only made when the company meets a targeted margin. During the year payments owing to FDCLP in relation to the year ended 31 December 2003 totalled £3,027,069 (2002: £1,758,137). The balance outstanding at the end of the financial year amounts to £768,162 (2002: £2,304,360).
- (ii) The company has also entered into an agreement with Fidelity International Limited ('FIL'), a related party with some common ownership to the company, to receive investment management services. During the financial period, the assets held to cover linked liabilities of the company were invested in a number of unit trusts and open-ended investment companies managed by FIL and/or its subsidiaries. The investment management fees due to FIL during the financial period amounted to £3,083,292 (2002: £1,987,968). The balance owed by FIL at the end of the financial year, which represents four months outstanding fees, amounts to £1,172,636 (2002: £211,078).
- (iii) Fidelity Investment Management Limited ('FIML'), a related party with some common ownership to the company, paid directors' fees on behalf of the company totalling £27,197 (2002: £33,000), of which £27,197 (2002: £33,000) was charged to the company. The balance owed to FIML at the end of the financial year, which represents four months outstanding fees plus related national insurance contributions, amounts to £10,886 (2002: £5,408).

16. Holding company

FMR Corp., a company incorporated in the USA, holds 100% of the company's share capital. The directors regard FMR Corp. as the company's ultimate holding company. Copies of the financial statements of FMR Corp. can be obtained from 82 Devonshire Street, Boston, Massachusetts, 02109, USA.