

**FIDELITY**

Investment Management

**Annual Report for the year ended**

**31 December**

**2003**



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## Company Summary

as at 31 December 2003

|   |   |                       |                                   |
|---|---|-----------------------|-----------------------------------|
| <b>Investment objective</b>             | To achieve long-term capital growth from the stockmarkets of continental Europe.  |                       |                                   |
| <b>Benchmark</b>                        | FTSE World Europe (ex UK) Index   |                       |                                   |
| <b>Management company</b>               | Fidelity Investments International  |                       |                                   |
| <b>Total assets employed</b>            | £470.8m   |                       |                                   |
| <b>Shareholders' funds</b>              | £407.3m   |                       |                                   |
| <b>Market capitalisation</b>            | £370.5m   |                       |                                   |
| <b>Capital structure</b>                | ordinary shares of 25p  | 62,903,233 in issue   |                                   |
|   | gearing   | Loan of €50m (£35.3m) | 4.96% 5 years (3 years remaining) |
|   |   | Loan of €40m (£28.2m) | 5.54% 5 years (3 years remaining) |
| <b>Continuation vote</b>                | An ordinary resolution to approve the continuation of the Company will be proposed to shareholders at the Annual General Meeting in 2005 and every second Annual General Meeting thereafter.  |                       |                                   |
| <b>Management &amp; secretarial fee</b> | Fidelity provides management, accounting, administrative and secretarial services to the Company under an agreement entered into on 7 October 1991 further details of which may be found on page 15.  |                       |                                   |
| <b>Membership of AITC</b>               | The Company is a member of the AITC under the Europe Sector.  |                       |                                   |
| <b>Investment trust status</b>          | The Inland Revenue has granted the Company approval as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 December 2001 and has granted provisional approval for the year ended 31 December 2002. The Directors are of the opinion that, since that date, the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval as an investment trust under that section. |                       |                                   |
| <b>ISA status</b>                       | Investment limit £7,000 in the 2003/2004 tax year.  |                       |                                   |

### Total return performance from launch to 31 December 2003

## Summary of Results

|   | 2003    | 2002     | % change* |
|---|---------|----------|-----------|
| <b>Assets at 31 December</b>  |         |          |           |
| Total assets employed†  | £470.8m | £355.1m  | +32.6     |
| Shareholders' funds   | £407.3m | £296.5m  | +37.4     |
| Borrowings as % of shareholders' funds                                      | 15.6%   | 19.8%    |           |
| Borrowings less cash as % of shareholders' funds                            | 15.3%   | 17.0%    |           |
| Net asset value per share (NAV)   | 647.43p | 469.73p  | +37.8     |
| <b>Results for the year to 31 December - see page 25</b>                    |         |          |           |
| Capital return/(loss) per ordinary share                                    | 175.56p | (46.32p) |           |
| Capital plus revenue return/(loss) per ordinary share                       | 177.49p | (44.63p) |           |
| Final dividend per ordinary share   | -       | 1.20p    |           |
| Interim dividend per ordinary share   | 1.50p   | -        |           |
| <b>Stockmarket Data at 31 December</b>                                      |         |          |           |
| FTSE World Europe (ex UK) Index   | 251.78  | 199.56   | +26.2     |
| Share price   |         |          |           |
| year end  | 589.00p | 412.00p  | +43.0     |
| high  | 589.00p | 636.50p  |           |
| low   | 373.00p | 376.00p  |           |
| Discount/+premium   |         |          |           |
| year end  | 9.0%    | 12.3%    |           |
| high  | 15.9%   | 12.3%    |           |
| low   | 7.7%    | +6.3%    |           |
| <b>Returns (includes reinvested income) for the year to 31 December (%)</b> |         |          |           |
| FTSE World Europe (ex UK) Index   | +29.0   | -27.4    |           |
| NAV   | +38.2   | -8.5     |           |
| Share price   | +43.3   | -22.5    |           |
| <b>Total Expense Ratios#</b>  |         |          |           |
| Total assets employed   | 1.38%   | 1.29%    |           |
| Shareholders' funds   | 1.64%   | 1.51%    |           |

\* price change

† total net assets plus fixed rate unsecured loans

# operating expenses (excluding interest before tax) based on average total assets less current liabilities (excluding fixed-term loans) and shareholders' funds at the end of each month

## Summary of Performance

| <b>Historical Record</b> as at 31 December 2003 | 2003               | 2002    | 2001    | 2000    | 1999    | 1998    | 1997    | 1996    | 1995    | 1994    | 1993    |
|---|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total assets employed (£m)                      | 471                | 355     | 379     | 419     | 352     | 266     | 220     | 167     | 137     | 111     | 85      |
| Shareholders' funds (£m)                        | 407                | 297     | 324     | 359     | 292     | 215     | 181     | 141     | 113     | 90      | 70      |
| NAV per share - undiluted                       | 647.43p            | 469.73p | 514.94p | 615.40p | 505.73p | 371.78p | 315.81p | 246.58p | 216.32p | 173.53p | 167.49p |
| NAV per share - diluted                         | n/a                | n/a     | n/a     | 576.97p | 471.71p | 343.39p | 285.45p | 224.26p | 197.19p | 161.40p | 156.29p |
| Share price                                     | 589.00p            | 412.00p | 533.00p | 548.50p | 449.00p | 334.00p | 277.50p | 220.00p | 193.00p | 152.50p | 167.50p |
| Warrant price                                   | n/a                | n/a     | n/a     | 444.00p | 348.00p | 230.50p | 177.50p | 121.00p | 102.00p | 94.00p  | 99.00p  |
| Discount/+premium to NAV                        | 9.0%               | 12.3%   | +3.5%   | 4.9%    | 4.8%    | 2.7%    | 2.8%    | 1.9%    | 2.1%    | 5.5%    | +7.2%   |
| Return per ordinary share                       | 1.93p              | 1.69p   | 4.01p   | 1.07p   | 1.01p   | 1.27p   | 0.83p   | 1.26p   | 1.46p   | 0.49p   | 0.32p   |
| Fully-diluted return per ordinary share         | n/a                | n/a     | n/a     | 1.00p   | 0.94p   | 1.16p   | 0.75p   | 1.07p   | 1.23p   | n/a     | n/a     |
| Dividend per ordinary share                     | 1.50p <sup>†</sup> | 1.20p   | 2.00p   | 0.60p   | 0.60p   | 0.60p   | 0.60p   | 0.60p   | 0.60p   | 0.30p   | 0.30p   |
| Cost of running trust*                          | 1.64%              | 1.51%   | 1.47%   | 1.61%   | 1.74%   | 1.57%   | 1.63%   | 1.65%   | 1.67%   | 1.63%   | 1.90%   |
| Actual gearing ratio - loan stock               | n/a                | n/a     | n/a     | 13.3%   | 19.5%   | 22.3%   | 20.5%   | 17.0%   | 17.7%   | 18.4%   | 22.0%   |
| Actual gearing ratio - borrowings               | 15.3%              | 17.0%   | 13.6%   | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     | n/a     |
| NAV - performance**                             | +38.2%             | -8.5%   | -16.2%  | +21.8%  | +36.3%  | +17.9%  | +28.4%  | +14.3%  | +25.2%  | +3.6%   | +62.5%  |
| Share price performance                         | +43.3%             | -22.5%  | -2.7%   | +22.3%  | +34.7%  | +20.6%  | +26.4%  | +14.3%  | +26.8%  | -9.0%   | +73.5%  |
| Index performance                               | +29.0%             | -27.4%  | -20.4%  | +1.4%   | +19.5%  | +31.1%  | +29.6%  | +8.5%   | +22.6%  | -0.6%   | +35.6%  |

<sup>†</sup> interim dividend only paid in respect of the year to 31 December 2003. No final dividend was paid.

\* operating expenses (excluding interest before tax) based on average shareholders' funds at the end of each month.

\*\* 2000 and prior years are undiluted performance.

### Total return performance from launch to 31 December 2003

### Performance relative to the Index from launch to 31 December 2003

### Undiluted NAV and share price from launch to 31 December 2003

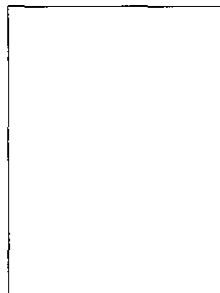
### Share price discount to NAV from launch to 31 December 2003

## Board of Directors



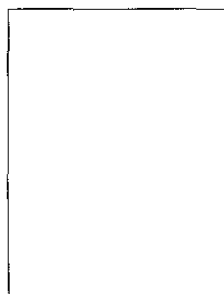
**Robert Walther**<sup>†\*</sup> (Chairman) (age 60, date of appointment: 24 September 1991) was Group Chief Executive of Clerical Medical Investment Group and a member of the Executive Committee of Halifax PLC until he retired in late 2001. He

joined the Clerical Medical Group in 1965, was appointed Investment Manager in 1976 and Investment Director in 1985. He is also Chairman of JPMorgan Fleming Claverhouse Investment Trust PLC and a director of Nationwide Building Society.



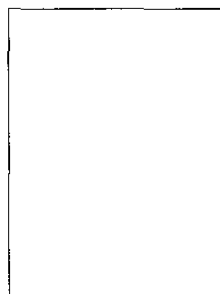
**David Simpson**<sup>\*††</sup> (age 62, date of appointment: 18 May 1998) was formerly a General Manager and Secretary of the Standard Life Assurance Company from 1988 to 1996. He is Chairman of Martin Currie Capital Return Trust

and a director of Edinburgh Income and Value Trust.



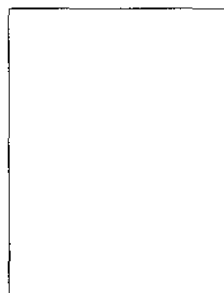
**Simon Fraser** (age 44, date of appointment: 26 July 2002) is Chief Investment Officer of Fidelity International Limited. He started his career at Fidelity in 1981 as an analyst and he spent a number of years in Japan, most recently

as Chief Investment Officer for the Asia/Pacific region. He returned to the UK in 1999 to take up his current position. He is also a director of Fidelity Japanese Values PLC.



**Johan Björkman**<sup>\*</sup> (age 59, date of appointment: 6 November 2001) is Chairman of Skanditek Industriförvaltning AB and also LjungbergGruppen AB (a listed Swedish real estate company), Invik AB (a listed Swedish holding company)

and Nordstjernen AB. He is a member of the boards of a number of other Swedish companies and has extensive experience in investment business.



**Simon Duckworth**<sup>\*</sup> (age 39, date of appointment: 24 February 2003) has been a member of the Corporation of London since 2000 where he serves on both the City's Finance Committee and its Police Authority. He sits on the Corporation's Investment

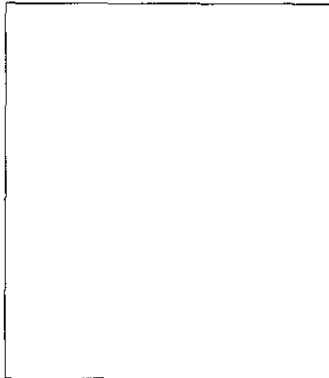
Sub-Committee. He is Governor of City University and of the Cass Business School. He also holds a number of other public and charitable appointments.

All of the Directors are non-executive and, with the exception of Mr Fraser, are independent.

† Chairman of the Management Engagement Committee †† Chairman of the Audit Committee

\* Members of the Audit and Management Engagement Committees

## Chairman's Statement



**Robert Walther**  
Chairman

I have pleasure in presenting the annual report of Fidelity European Values PLC for the year ended 31 December 2003.

**Performance** - During the first few months of 2003 global stockmarkets fell as the prospects of a conflict in the Middle East unnerved investors. However as the war ended equities rebounded strongly, stimulated by improved investor sentiment, and subsequently closed the year in positive territory. During the review period, the net asset value ("NAV") per share of the Company returned 38.2%, strongly outperforming the benchmark FTSE World Europe (ex UK) Index, which returned 29.0%. With regard to performance in the long term, the NAV per share of the Company has returned 594.4% since launch, significantly outperforming the benchmark, which has returned 216.1%. The strong relative outperformance was due to a combination of successful stock selection by the Investment Manager and the portfolio's gearing, which had a positive impact on the total return of the NAV. The shares ended the year trading at a discount of 9.0% to the underlying asset value per share. (All figures are in sterling and are on a total return basis.) A detailed review of the performance of the portfolio is provided in the Investment Manager's Review.

**Gearing** - The Board is responsible for the level of gearing in the Company and reviews it on a regular basis. The Company retained a modest amount of gearing throughout 2003 (15.3% as at the year end), which enhanced the net asset value by 3.6%. We believe that gearing will continue to benefit shareholders in the long term.

**Dividend** - This year, to enable shareholders through the PEP and ISA schemes to take full advantage of the tax credit available prior to 5 April 2004, your Board has decided to pay an interim dividend of 1.50 pence per share (2002: nil). There will be no final dividend payable for the year ending 31 December 2003 (2002: 1.20 pence per share). The interim dividend will be payable on 31 March 2004 to shareholders on the register at close of business on 30 January 2004 (ex-dividend date 28 January 2004). Your Board believes very strongly that total return (income and capital) is the key performance indicator. We will not therefore restrict the Investment Manager even if this leads to lower dividends in future.

**Directorate** - Mr David Simpson and Mr Johan Björkman retire by rotation and, being eligible, have offered themselves for re-election. Mr Simpson and Mr Björkman are both valuable Board members, Mr Simpson with his investment experience and Mr Björkman having a wealth of experience in European markets. Mr Simon Fraser continues to serve as a Director of the Company and I believe that there is value in having a senior member of the Company's Manager who assumes the responsibility of being a Director of the Company. All of the other Directors are totally independent and this provides an appropriate balance. Following the amendment to the Listing Rules, Mr Fraser will be subject to annual re-election by shareholders with effect from 2005.

Due to my tenure on the Board exceeding nine years I will also be subject to annual re-election going forward and I offer myself for such re-election. My fellow Directors have met in my absence for the purpose of considering my independence. They have taken note of the AITC Code of Corporate Governance and concluded that lengthy service on the Board does not of itself compromise independence. Indeed they believe that independence is potentially greater due to experience gained from the length of tenure. They believe that I behave independently and wish me to continue as

## Chairman's Statement

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Chairman of the Company. They are recommending that I be re-elected as a Director at the forthcoming Annual General Meeting.

The Board has considered the proposal for the re-election of each of the above-named Directors and recommends to shareholders that they vote in favour of the proposals.

Any proposal for a new Director is considered by the whole Board with the independent Directors taking the lead. As mentioned in last year's annual report Mr Simon Duckworth was appointed as a Director of the Company on 24 February 2003. Simon has a proven track record in private and public service. He was elected as a Director at the Annual General Meeting in May 2003.

**Annual General Meeting** - The Annual General Meeting of the Company is due to take place on 7 May 2004 at midday at Fidelity's offices at 25 Cannon Street (just next to St. Paul's Cathedral). Full details of the meeting are given on pages 42 to 44 and I look forward to meeting you then.

**Outlook** - After three years of decline, Continental European equity markets posted a strong performance during 2003 returning 29.0%, as measured by the FTSE World Europe (ex UK) Index in local currency terms. The economic environment in the region improved over the last six months of 2003, as did investors' renewed appetite for risk. Looking ahead the main factors expected to support the strengthening of the economy are ongoing recoveries in industrial production and consumer confidence, as well as increased domestic and business demand and interest rates remaining at a relatively low level. Set against this, uncertainties remain in the outlook. The terrorist attack in Spain on 11 March 2004 serves as a stark and tragic reminder of the continuing threat of global terrorism.

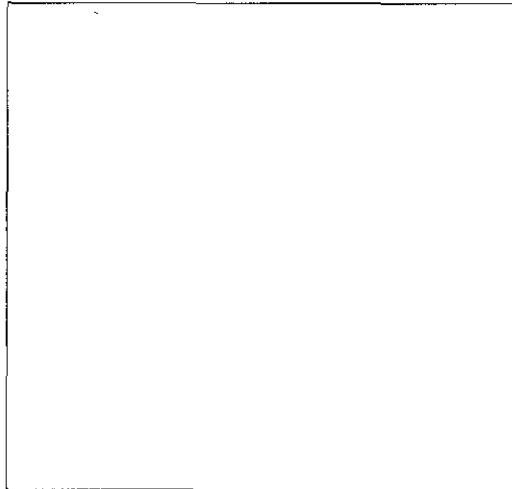
We continue to believe that stock selection based on in-depth company analysis is the key in outperforming the index over the coming year.

**Appointment of Manager** - Following careful consideration and discussion the members of the Management Engagement Committee have resolved to affirm the continuation of the appointment of Fidelity Investments International as Manager of the Company as in their opinion this is in the interests of the shareholders as a whole. The performance of the Company has continued to be very good over both the short and the long term. Fidelity Investments International also provides a strong brand, good professional support and efficient management of the PEP, ISA and Share Plan schemes.

The Board is aware that management fees and the Company's total expense ratio are slightly higher than those of its peer group. However the Board has concluded that fees at this level are acceptable as good investment performance is seen as being of the utmost importance.

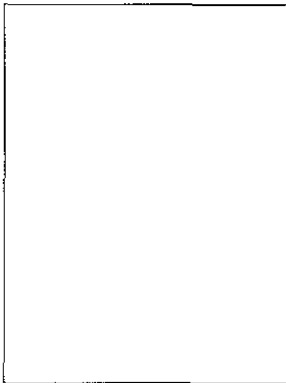
Robert Walther  
16 March 2004

## Investment Manager and Investment Manager's Report



### **Fidelity Investments International**

The Company is managed by Fidelity Investments International, incorporated in the UK on 13 September 1979 (authorised and regulated by the Financial Services Authority). Fidelity Investments International is part of the Fidelity International Limited group. Fidelity International Limited and its US affiliate, FMR Corp, together form what is commonly referred to as Fidelity Investments<sup>R</sup>. Fidelity Investments<sup>R</sup>, as at 31 December 2003 had total assets under management exceeding £640 billion. Fidelity Investments<sup>R</sup> has developed into the world's largest independent investment management organisation.



### **Tim McCarron** (age 41)

is currently a portfolio manager with Fidelity Investment Services Limited. He has been with Fidelity since 1993, when he joined as a research analyst. He spent a year in Fidelity's Boston office as a research analyst, before returning to the UK in 1995. In addition to Fidelity European Values PLC, he manages the Fidelity European Fund and a number of institutional portfolios.

## Investment Manager's Report

**Performance Review** - As shown in the Summary of Results on page 2, the NAV of Fidelity European Values PLC returned +38.2% in the year to 31 December 2003, outperforming the FTSE World Europe (ex UK) Index, which returned +29.0%. (All performance figures are quoted on a total return basis and in sterling.)

**Market Background** - After a poor start to 2003, European equities rebounded strongly to close the year in positive territory. Much of the equity rebound was fuelled by investors' renewed appetite for risk. Economically sensitive sectors outperformed defensive sectors.

European interest rates were cut twice during the year in March and June and finished the year at 2.00%. The strength of the euro against other international currencies was an important feature of the year; the euro strengthened by 20% against the US dollar from \$1.049 to \$1.260 and also strengthened against other international currencies including UK sterling and the Japanese yen.

**Portfolio Review** - The outperformance of the portfolio versus the market was primarily due to good stock selection within sectors. Stock selection was particularly successful in the insurance, construction & building materials, health,

# Investment Manager's Report

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## Total return performance for year to 31 December 2003

automobiles & parts and oil & gas sectors. At a country level stock selection was again important, although the overweight exposure to peripheral markets including Greece, Spain and Eastern Europe was beneficial.

Additionally a number of holdings were the subject of takeover offers which helped performance. These included the Austrian brewer BBAG/Brau Union which was taken over by Heineken, Wella which was taken over by Procter & Gamble, and the Dutch Vodafone subsidiary Libertel.

Finally, in the context of a rising market, the gearing enhanced the total return of the NAV.

**Portfolio Structure** - The general structure of the portfolio remains unchanged, with a focus on medium-sized and smaller companies combined with a bottom-up, value-driven stock selection approach.

Overall the portfolio is positioned with a relatively neutral balance between defensive and economically-sensitive sectors. However there is a notable bias at country level, with a weighting in favour of the smaller peripheral

countries in Europe (including Eastern Europe) at the expense of the larger core markets. There have been some changes of emphasis within this context during the year; most notably the large overweight position in Ireland was reduced, while a number of new holdings were added in Greece, Spain and Eastern Europe.

## Relative % weighting to FTSE World Europe (ex UK) Index

(Source: Fidelity, 31 December 2003)

**Outlook** - The European economic environment improved during the last six months of 2003. The prime driver of

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this was the improving global outlook driven in particular by the improving economic outlook in the US. The strengthening of the euro versus the US dollar in this context is notable, as the European economies are exhibiting slower GDP growth than the US. For companies who export from the Eurozone to the US, this implies an important loss of competitiveness in a global context. The strength of the euro should however mean that European interest rates will remain at a low level.

The terrorist attacks in Madrid on 11 March 2004 serve as an unwelcome reminder that global terrorism remains a continuing issue in the world. This tragic event will have an impact on consumer and business confidence not only in Spain but across Europe. The longer term effect of this on economic developments is impossible to predict, but it is notable that the 11 September 2001 attacks occurred at a point when stockmarkets and economies were already weakening; in contrast current conditions have been improving.

We continue to believe that stock selection, based on in-depth company analysis, will continue to be crucial over the coming year.

Fidelity Investments International

16 March 2004

## Portfolio Listing

as at 31 December 2003

| <b>Holdings by value</b>   | <b>Market Value<br/>£'000</b> | <b>%<sup>†</sup></b> |
|--|-------------------------------|----------------------|
| <b>France Telecom</b><br><i>French provider of telecommunication services</i>  | 15,672                        | 3.3%                 |
| <b>Total</b><br><i>French supplier of crude oil and natural gas</i>  | 13,943                        | 3.0%                 |
| <b>European Aeronautical Defence &amp; Space</b><br><i>Pan European manufacturer of aerospace and military equipment</i> | 11,775                        | 2.5%                 |
| <b>Credit Agricole</b><br><i>French bank</i>   | 11,037                        | 2.3%                 |
| <b>Statoil</b><br><i>Norwegian supplier of crude oil and natural gas</i>   | 10,991                        | 2.3%                 |
| <b>Altadis</b><br><i>Spanish tobacco company</i>   | 10,920                        | 2.3%                 |
| <b>Axa</b><br><i>French insurance company</i>  | 10,354                        | 2.2%                 |
| <b>Eni</b><br><i>Italian supplier of crude oil and natural gas</i>   | 10,353                        | 2.2%                 |
| <b>Deutsche Telekom</b><br><i>German provider of telecommunication services</i>  | 9,894                         | 2.1%                 |
| <b>Royal Dutch Petroleum</b><br><i>Anglo-Dutch integrated oil and gas company</i>  | 9,490                         | 2.1%                 |
| <b>Top 10 Holdings</b>   | <b>114,429</b>                | <b>24.3%</b>         |
| <b>Allianz</b><br><i>German provider of insurance and related services</i>   | 8,669                         | 1.8%                 |
| <b>VNU</b><br><i>Dutch publishing business</i>   | 8,055                         | 1.7%                 |
| <b>Public Power of Greece</b><br><i>Greek electricity company</i>  | 8,039                         | 1.7%                 |
| <b>Novo-Nordisk</b><br><i>Danish manufacturer of pharmaceutical products</i>   | 7,829                         | 1.7%                 |
| <b>Fresenius PFD</b><br><i>German healthcare service and product supplier</i>  | 7,726                         | 1.6%                 |
| <b>CNP Assurances</b><br><i>French provider of insurance and pension products</i>  | 7,684                         | 1.6%                 |
| <b>Richemont Comp</b><br><i>Swiss manufacturer and retailer of luxury goods</i>  | 6,969                         | 1.5%                 |
| <b>Roche Holdings</b><br><i>Swiss developer and manufacturer of pharmaceutical and chemical products</i>                 | 6,629                         | 1.4%                 |
| <b>Credit Suisse</b><br><i>Swiss bank</i>  | 6,612                         | 1.4%                 |
| <b>Continental</b><br><i>German tyre and auto components manufacturer</i>  | 6,252                         | 1.4%                 |
| <b>Top 20 Holdings</b>   | <b>188,893</b>                | <b>40.1%</b>         |

<sup>†</sup> % total assets less current liabilities, excluding loan liability

## Portfolio Listing

as at 31 December 2003

| Holdings by value  | Market Value<br>£'000 | % <sup>†</sup> |
|--|-----------------------|----------------|
| <b>Greek Organisation of Football Prognostics</b><br><i>Greek gaming company</i>                   | 5,834                 | 1.2%           |
| <b>Banco Santander Central Hispano</b><br><i>Spanish bank</i>                                      | 5,453                 | 1.2%           |
| <b>ACS Actividades Construccion Y Servicios</b><br><i>Spanish construction company</i>             | 5,443                 | 1.2%           |
| <b>DNB</b><br><i>Norwegian bank</i>  | 4,960                 | 1.1%           |
| <b>Repsol</b><br><i>Spanish explorer and producer of crude oil and natural gas</i>                 | 4,901                 | 1.0%           |
| <b>Hansabank</b><br><i>Estonian bank</i>   | 4,854                 | 1.0%           |
| <b>Merck Kgaa</b><br><i>German manufacturer of pharmaceutical and chemical products</i>            | 4,629                 | 1.0%           |
| <b>Xstrata</b><br><i>Swiss/UK-based mining group</i>   | 4,613                 | 1.0%           |
| <b>EFG Eurobank</b><br><i>Greek bank</i>   | 4,587                 | 1.0%           |
| <b>Fresenius Med Care PFD</b><br><i>German supplier of dialysis care products and services</i>     | 4,491                 | 1.0%           |
| <b>Holcim</b><br><i>Swiss cement company</i>   | 4,335                 | 0.9%           |
| <b>Elisa 'A'</b><br><i>Finnish provider of telecommunication solutions</i>                         | 4,321                 | 0.9%           |
| <b>Neopost</b><br><i>French manufacturer of mailing equipment</i>                                  | 4,236                 | 0.9%           |
| <b>Sampo Oyj 'A'</b><br><i>Finnish banking group</i>   | 4,199                 | 0.9%           |
| <b>Electricidade de Portugal</b><br><i>Portuguese electricity company</i>                          | 4,071                 | 0.9%           |
| <b>Kuehne &amp; Nagel International</b><br><i>Swiss freight forwarding company</i>                 | 3,927                 | 0.8%           |
| <b>National Bank of Greece</b><br><i>Greek bank</i>  | 3,592                 | 0.8%           |
| <b>Klepierre</b><br><i>French real estate management company</i>                                   | 3,580                 | 0.8%           |
| <b>Komerčni Banka</b><br><i>Czech Republic bank</i>  | 3,559                 | 0.8%           |
| <b>ISS</b><br><i>Danish facility services group</i>  | 3,509                 | 0.7%           |
| <b>Fomento De Construcciones</b><br><i>Spanish building and construction group</i>                 | 3,507                 | 0.7%           |
| <b>Sydbank</b><br><i>Danish bank</i>   | 3,451                 | 0.7%           |
| <b>Buzzi Unicem</b><br><i>Italian cement company</i>   | 3,426                 | 0.7%           |
| <b>Yukos 'ADR'</b><br><i>Russian producer and distributor of oil and petroleum products</i>        | 3,397                 | 0.7%           |
| <b>Adidas-Salomon</b><br><i>German manufacturer of sports shoes and sports equipment</i>           | 3,237                 | 0.7%           |
| <b>OMV</b><br><i>Austrian explorer and refiner of crude oil and natural gas</i>                    | 3,227                 | 0.7%           |
| <b>RAS</b><br><i>Italian multi-line insurance provider</i>   | 3,173                 | 0.7%           |
| <b>Julius Baer Holdings</b><br><i>Swiss asset manager and financial services provider</i>          | 3,104                 | 0.7%           |
| <b>Estonian Telecom</b><br><i>Estonian provider of telephone services</i>                          | 3,055                 | 0.6%           |
| <b>Compania de Distribucion Integral Logisita</b><br><i>Spanish provider of logistics services</i> | 3,051                 | 0.6%           |
| <b>Top 50 Holdings</b>   | 310,615               | 66.0%          |
| <b>Other Holdings (100)</b>  | 158,885               | 33.7%          |
|  | 469,500               | 99.7%          |
| <b>Cash &amp; other net current assets</b>   | 1,313                 | 0.3%           |
|  | 470,813               | 100.0%         |

<sup>†</sup> % total assets less current liabilities, excluding loan liability

## Distribution of Portfolio \*

as at 31 December 2003

|                                    | France      | Germany     | Netherlands | Spain       | Switzerland | Greece     | Italy      | Denmark    | Norway     | Finland    | Russia     | Other       | Total 2003   | Index 2003 + | Total 2002  |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|------------|------------|------------|------------|------------|------------|-------------|--------------|--------------|-------------|
| <b>Equities</b>                    |             |             |             |             |             |            |            |            |            |            |            |             |              |              |             |
| <b>Financials</b>                  |             |             |             |             |             |            |            |            |            |            |            |             |              |              |             |
| Banks                              | 3.0         | -           | -           | 1.6         | 1.4         | 2.6        | 0.4        | 1.4        | 1.1        | 0.2        | -          | 1.8         | 13.5         | 20.4         | 13.2        |
| Insurance                          | 2.4         | 1.8         | -           | 0.6         | -           | -          | 0.7        | -          | -          | 0.9        | -          | -           | 6.4          | 6.8          | 3.9         |
| Speciality & Other Finance         | -           | 0.6         | -           | -           | 0.8         | -          | 0.4        | -          | -          | -          | -          | 0.3         | 2.1          | 0.8          | 2.6         |
| Life Assurance                     | 1.6         | -           | -           | -           | -           | -          | 0.4        | -          | -          | -          | -          | -           | 2.0          | 1.2          | 1.9         |
| Investment Companies               | 0.3         | -           | 0.7         | 0.3         | -           | -          | -          | -          | -          | -          | -          | 0.3         | 1.6          | 0.4          | 1.4         |
| Real Estate                        | 0.8         | -           | -           | 0.2         | -           | -          | -          | -          | -          | 0.3        | -          | 0.2         | 1.5          | 0.3          | 1.6         |
|                                    | <b>8.1</b>  | <b>2.4</b>  | <b>0.7</b>  | <b>2.7</b>  | <b>2.2</b>  | <b>2.6</b> | <b>1.9</b> | <b>1.4</b> | <b>1.1</b> | <b>1.4</b> | <b>-</b>   | <b>2.6</b>  | <b>27.1</b>  | <b>29.9</b>  | <b>24.6</b> |
| <b>Non-Cyclical Consumer Goods</b> |             |             |             |             |             |            |            |            |            |            |            |             |              |              |             |
| Pharmaceuticals & Biotechnology    | -           | 1.9         | -           | -           | 1.4         | -          | -          | 1.7        | -          | -          | -          | -           | 5.0          | 8.7          | 4.1         |
| Health                             | 0.2         | 2.6         | -           | -           | 0.7         | -          | -          | -          | -          | -          | -          | 0.5         | 4.0          | 0.7          | 2.5         |
| Tobacco                            | -           | -           | -           | 3.0         | -           | -          | -          | -          | -          | -          | -          | -           | 3.0          | 0.3          | 4.4         |
| Food Producers & Processors        | -           | 0.4         | 1.0         | -           | -           | -          | -          | -          | 0.4        | -          | -          | 0.1         | 1.9          | 4.7          | 2.2         |
| Personal Care & Household Products | 0.1         | -           | 0.4         | -           | -           | -          | -          | -          | -          | -          | -          | -           | 0.5          | 1.1          | 2.1         |
| Beverages                          | -           | -           | -           | -           | -           | -          | -          | 0.4        | -          | -          | -          | -           | 0.4          | 0.7          | 2.1         |
|                                    | <b>0.3</b>  | <b>4.9</b>  | <b>1.4</b>  | <b>3.0</b>  | <b>2.1</b>  | <b>-</b>   | <b>-</b>   | <b>2.1</b> | <b>0.4</b> | <b>-</b>   | <b>-</b>   | <b>0.6</b>  | <b>14.8</b>  | <b>16.2</b>  | <b>17.4</b> |
| <b>Resources</b>                   |             |             |             |             |             |            |            |            |            |            |            |             |              |              |             |
| Oil & Gas                          | 3.0         | -           | 2.0         | 1.0         | -           | -          | 2.2        | -          | 2.3        | -          | 1.5        | 1.3         | 13.3         | 9.1          | 8.8         |
| Mining                             | -           | -           | -           | -           | -           | -          | -          | -          | -          | -          | -          | 1.0         | 1.0          | -            | -           |
|                                    | <b>3.0</b>  | <b>-</b>    | <b>2.0</b>  | <b>1.0</b>  | <b>-</b>    | <b>-</b>   | <b>2.2</b> | <b>-</b>   | <b>2.3</b> | <b>-</b>   | <b>1.5</b> | <b>2.3</b>  | <b>14.3</b>  | <b>9.1</b>   | <b>8.8</b>  |
| <b>Non-Cyclical Services</b>       |             |             |             |             |             |            |            |            |            |            |            |             |              |              |             |
| Telecommunication Services         | 3.3         | 2.1         | 0.7         | -           | -           | 0.5        | 0.5        | -          | -          | 0.9        | 0.6        | 1.6         | 10.2         | 8.4          | 13.1        |
| Food & Drug Retailers              | 1.0         | -           | -           | -           | -           | -          | -          | -          | -          | -          | -          | -           | 1.0          | 1.6          | 0.8         |
|                                    | <b>4.3</b>  | <b>2.1</b>  | <b>0.7</b>  | <b>-</b>    | <b>-</b>    | <b>0.5</b> | <b>0.5</b> | <b>-</b>   | <b>-</b>   | <b>0.9</b> | <b>0.6</b> | <b>1.6</b>  | <b>11.2</b>  | <b>10.0</b>  | <b>13.9</b> |
| <b>Cyclical Services</b>           |             |             |             |             |             |            |            |            |            |            |            |             |              |              |             |
| Media & Entertainment              | 0.5         | -           | 2.2         | -           | -           | 0.2        | 0.4        | 0.2        | 0.4        | 0.5        | -          | 0.6         | 5.0          | 2.4          | 8.3         |
| Leisure & Hotels                   | 0.5         | -           | -           | -           | -           | 1.2        | -          | -          | -          | -          | -          | 0.5         | 2.2          | 0.5          | 2.1         |
| Transport                          | -           | -           | -           | -           | 0.9         | -          | -          | 0.9        | -          | -          | -          | -           | 1.8          | 0.7          | 0.9         |
| Support Services                   | -           | -           | 0.3         | 0.4         | -           | -          | -          | 0.7        | -          | -          | -          | -           | 1.4          | 1.2          | 2.8         |
| General Retailers                  | -           | -           | -           | -           | -           | -          | -          | -          | -          | -          | -          | -           | -            | 0.8          | 0.3         |
|                                    | <b>1.0</b>  | <b>-</b>    | <b>2.5</b>  | <b>0.4</b>  | <b>0.9</b>  | <b>1.4</b> | <b>0.4</b> | <b>1.8</b> | <b>0.4</b> | <b>0.5</b> | <b>-</b>   | <b>1.1</b>  | <b>10.4</b>  | <b>5.6</b>   | <b>14.4</b> |
| <b>Basic Industries</b>            |             |             |             |             |             |            |            |            |            |            |            |             |              |              |             |
| Construction & Building Materials  | 1.2         | 0.2         | 0.2         | 2.4         | 0.9         | 0.9        | 1.2        | -          | -          | -          | -          | 0.3         | 7.3          | 2.4          | 6.7         |
| Forestry & Paper                   | -           | -           | -           | -           | -           | -          | -          | -          | -          | 0.6        | -          | -           | 0.6          | 0.8          | 1.2         |
| Steel & Other Metals               | -           | -           | -           | -           | -           | -          | -          | -          | -          | -          | 0.5        | -           | 0.5          | 0.4          | 0.8         |
| Chemicals                          | 0.4         | -           | -           | -           | -           | -          | -          | -          | -          | -          | -          | -           | 0.4          | 3.3          | 3.8         |
|                                    | <b>1.6</b>  | <b>0.2</b>  | <b>0.2</b>  | <b>2.4</b>  | <b>0.9</b>  | <b>0.9</b> | <b>1.2</b> | <b>-</b>   | <b>-</b>   | <b>0.6</b> | <b>0.5</b> | <b>0.3</b>  | <b>8.8</b>   | <b>6.9</b>   | <b>12.5</b> |
| <b>General Industrials</b>         |             |             |             |             |             |            |            |            |            |            |            |             |              |              |             |
| Aerospace & Defence                | -           | -           | 2.5         | -           | -           | -          | -          | -          | 0.5        | -          | -          | -           | 3.0          | 0.4          | 0.4         |
| Diversified Industrials            | -           | -           | -           | -           | -           | -          | -          | 0.4        | -          | 0.8        | -          | -           | 1.2          | 0.2          | 1.5         |
| Electronic & Electrical Equipment  | 0.9         | -           | -           | -           | -           | -          | -          | -          | -          | -          | -          | -           | 0.9          | 4.0          | 1.1         |
| Engineering & Machinery            | -           | -           | -           | -           | 0.1         | -          | -          | -          | -          | -          | -          | -           | 0.1          | 1.5          | 0.5         |
|                                    | <b>0.9</b>  | <b>-</b>    | <b>2.5</b>  | <b>-</b>    | <b>0.1</b>  | <b>-</b>   | <b>-</b>   | <b>0.4</b> | <b>0.5</b> | <b>0.8</b> | <b>-</b>   | <b>-</b>    | <b>5.2</b>   | <b>6.1</b>   | <b>3.5</b>  |
| <b>Cyclical Consumer Goods</b>     |             |             |             |             |             |            |            |            |            |            |            |             |              |              |             |
| Household Goods & Textiles         | -           | 0.7         | -           | -           | 1.5         | -          | 0.4        | -          | -          | -          | -          | -           | 2.6          | 1.9          | -           |
| Automobiles & Parts                | -           | 1.3         | -           | -           | -           | -          | -          | -          | -          | -          | -          | -           | 1.3          | 3.3          | 0.6         |
|                                    | <b>-</b>    | <b>2.0</b>  | <b>-</b>    | <b>-</b>    | <b>1.5</b>  | <b>-</b>   | <b>0.4</b> | <b>-</b>   | <b>-</b>   | <b>-</b>   | <b>-</b>   | <b>-</b>    | <b>3.9</b>   | <b>5.2</b>   | <b>0.6</b>  |
| <b>Utilities</b>                   |             |             |             |             |             |            |            |            |            |            |            |             |              |              |             |
| Electricity                        | -           | -           | -           | 0.4         | -           | 1.7        | -          | -          | -          | -          | -          | 0.9         | 3.0          | 2.3          | 1.2         |
| Other                              | -           | -           | -           | -           | -           | -          | -          | -          | -          | -          | -          | -           | -            | 2.7          | -           |
|                                    | <b>-</b>    | <b>-</b>    | <b>-</b>    | <b>0.4</b>  | <b>-</b>    | <b>1.7</b> | <b>-</b>   | <b>-</b>   | <b>-</b>   | <b>-</b>   | <b>-</b>   | <b>0.9</b>  | <b>3.0</b>   | <b>5.0</b>   | <b>1.2</b>  |
| <b>Information Technology</b>      |             |             |             |             |             |            |            |            |            |            |            |             |              |              |             |
| Software & Computer Services       | 0.2         | 0.2         | 0.5         | -           | 0.1         | -          | -          | -          | -          | -          | -          | -           | 1.0          | 1.6          | 0.3         |
| Information Technology Hardware    | -           | -           | -           | -           | -           | -          | -          | -          | -          | -          | -          | -           | -            | 4.4          | 0.8         |
|                                    | <b>0.2</b>  | <b>0.2</b>  | <b>0.5</b>  | <b>-</b>    | <b>0.1</b>  | <b>-</b>   | <b>-</b>   | <b>-</b>   | <b>-</b>   | <b>-</b>   | <b>-</b>   | <b>-</b>    | <b>1.0</b>   | <b>6.0</b>   | <b>1.1</b>  |
| <b>Total Equities 2003</b>         | <b>19.4</b> | <b>11.8</b> | <b>10.5</b> | <b>9.9</b>  | <b>7.8</b>  | <b>7.1</b> | <b>6.6</b> | <b>5.7</b> | <b>4.7</b> | <b>4.2</b> | <b>2.6</b> | <b>9.4</b>  | <b>99.7</b>  | <b>100.0</b> | <b>98.0</b> |
| <b>Cash &amp; Other Net Assets</b> |             |             |             |             |             |            |            |            |            |            |            |             | <b>0.3</b>   |              | <b>2.0</b>  |
| <b>Total - 2003</b>                | <b>19.4</b> | <b>11.8</b> | <b>10.5</b> | <b>9.9</b>  | <b>7.8</b>  | <b>7.1</b> | <b>6.6</b> | <b>5.7</b> | <b>4.7</b> | <b>4.2</b> | <b>2.6</b> | <b>9.7</b>  | <b>100.0</b> |              |             |
| Index - 2003                       | 21.6        | 16.5        | 11.7        | 8.4         | 15.8        | 1.0        | 9.1        | 1.5        | 1.0        | 3.1        | -          | 10.3        |              | 100.0        |             |
| <b>Total Equities - 2002</b>       | <b>14.7</b> | <b>6.6</b>  | <b>8.5</b>  | <b>10.3</b> | <b>9.5</b>  | <b>1.2</b> | <b>4.3</b> | <b>3.4</b> | <b>7.6</b> | <b>7.2</b> | <b>2.7</b> | <b>24.0</b> |              | <b>100.0</b> |             |

\* Total assets less current liabilities, excluding loan liability

+ FTSE World Europe (ex UK) Index

## Directors' Report

The Directors have pleasure in presenting their report together with the audited accounts of the Company for the year ended 31 December 2003.

The Company was incorporated in England and Wales as a public limited company on 16 August 1991 under the name of Fidelity European Values PLC with the registered number 2638812.

### Activities and Status

A review of the year's activities and an indication of likely future developments are given in the Chairman's Statement on pages 5 and 6 and in the Investment Manager's Report on pages 7 to 9.

The Inland Revenue has approved the Company as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 December 2001 and has granted provisional approval for the year ended 31 December 2002, although this approval may be subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. The Directors are of the opinion that, since that date, the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval as an investment trust under that section.

The Company is not a close company and has no employees. It is registered as an investment company as defined in Section 266 of the Companies Act 1985 and operates as such.

### Net Asset Value

Investments were valued at £469,500,000 as at 31 December 2003. Shareholders' funds amounted to £407,256,000 resulting in a net asset value per share of 647.43p. Changes to investments are shown in note 10 to the accounts on page 32.

### Results and Dividends

The amount available for distribution as a dividend is £1,216,000 as shown on page 25. An interim dividend of

1.50 pence per share is payable on 31 March 2004 to shareholders on the register at close of business on 30 January 2004 (ex-dividend date 28 January 2004). The balance of £275,000 has been transferred to reserves. The payment of the interim dividend will enable shareholders through PEP and ISA schemes to take advantage of the 10% tax credit available prior to 5 April 2004. Under legislation in place until 5 April 2004, individuals holding shares in a PEP or ISA are entitled to a refund of the tax credit on UK dividend distributions.

### Share Capital

#### - Share Issues

No share issues were made during the year (2002: 281,447).

#### - Share Repurchases

Further to the authority granted by shareholders, 222,000 ordinary 25p shares (0.35% of the issued share capital) were purchased for cancellation as follows (2002: 30,000):

| Date             | Total Shares Purchased | Price | Discount to NAV at which purchased |
|------------------|------------------------|-------|------------------------------------|
| 10 January 2003  | 32,000                 | £4.23 | 13.10%                             |
| 15 January 2003  | 40,000                 | £4.31 | 12.07%                             |
| 24 January 2003  | 80,000                 | £4.22 | 10.45%                             |
| 13 February 2003 | 70,000                 | £4.01 | 10.66%                             |

The total amount paid for the shares was £926,060 and the resultant uplift in the NAV per share was 0.18p.

As at 31 December 2003, the total number of shares in issue was 62,903,233 (2002: 63,125,233).

No further shares have been purchased for cancellation since the year end.

At the Annual General Meeting held on 22 May 2003 the Company's shareholders passed a Special Resolution which granted the Directors authority to purchase up to 9,400,000 ordinary shares in the market for cancellation. The

authority expires on 7 May 2004 and a Special Resolution to renew the authority will therefore be put to shareholders for approval at the forthcoming Annual General Meeting.

### **Gearing**

The Company has two loans, both of which are repayable on 29 December 2006. The first is with National Australia Bank Limited for euro 40 million at an interest rate of 5.54% per annum. The second is with The Royal Bank of Scotland plc for euro 50 million at an interest rate of 4.96% per annum.

### **Political and Charitable Donations**

The Company has not made any political or charitable donations in the year (2002: nil).

### **Payment of Creditors**

The Company's principal supplier is the Manager who is paid in the month following the end of each calendar quarter, in accordance with the terms of the management agreement. The Company's policy for the year to 31 December 2004 (2003: same) for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction to ensure that the supplier is aware of these terms and to abide by the agreed terms of payment. The Company did not have any trade creditors in the year (2002: nil). Other suppliers are paid in accordance with the individual payment terms agreed with each supplier.

### **Management Company**

The Manager, Fidelity Investments International, a subsidiary of Fidelity International Limited, provides management, accounting, administrative and secretarial services to the Company under an agreement (the "Management Agreement") entered into on 7 October 1991.

The agreement provides for a quarterly fee of an amount equal to 0.25 per cent (plus VAT) of the value of the Company's assets under management (as defined in the Management Agreement, which excludes investments in other funds managed by the Manager) payable quarterly in

arrears and calculated as of the last business day of March, June, September and December in each year. In addition the Company has agreed to pay to the Manager a fee for secretarial and administration services, payable quarterly in arrears, at the rate of £25,000 per annum (plus VAT).

The Management Agreement will continue unless and until terminated by either party giving to the other not less than twelve months' notice. The Management Agreement may, however, be terminated without compensation if the Company is liquidated in 2005, or in any subsequent year thereafter, pursuant to the procedures laid down in the Articles of Association of the Company. The Management Agreement may also be terminated forthwith as a result of a material breach of the agreement or on the insolvency of the Manager or the Company. In addition, the Company may terminate the agreement by six months' notice if the Manager ceases to be a subsidiary of Fidelity International Limited or if the Board shall resolve at two successive quarterly meetings that there has been a material and continuing underperformance in the portfolio of assets.

The Manager also provides certain services, including marketing and administration, in connection with the Fidelity Investment Trust Share Plan and the Fidelity Individual Savings Account under an agreement dated 4 March 1996. The amount payable for these services for the year to 31 December 2003 was £224,910 (2002: £60,608).

An amount of £1,392,363 (2002: £1,050,171) was due to the Manager under the above agreements at 31 December 2003 and is included in creditors in note 13 on page 36.

The Manager uses certain services in the course of its work for the Company and other clients that are paid for or provided by brokers through whom the Manager executes transactions for the Company and other clients. The provision of such services to the Manager is governed by the rules of the Financial Services Authority. The Manager has in place procedures and controls in order to ensure compliance with those rules and the achievement of best execution when dealing on behalf of clients with brokers.

## Directors' Report

The Manager has an arrangement with selected brokers whereby a portion of commissions from security transactions may be paid to the Company to reduce transaction costs. Amounts received by the Company under this arrangement are now credited to capital. In the year to 31 December 2003 £175,836 was received (2002: £66,027).

The Company participates in the Manager's interfund programme whereby Fidelity's traders, on occasion, identify situations where one fund managed by Fidelity is buying the same security that another fund is selling. If a trader can confirm that it would be in the interests of both accounts to execute a transaction between them rather than in the market then an interfund transaction is executed.

There is a regulatory requirement on the Manager to obtain best execution and no individual deal is entered into which prevents compliance with this requirement.

Mr Simon Fraser is a director of Fidelity Investments International.

Fidelity International Limited has an interest of 826,115 shares in the Company.

### Socially Responsible Investment

The Manager's primary objective is to produce superior financial returns to investors. It believes that over the long term sound social, environmental and ethical policies make good business sense and takes these issues into account when, in its view, they have a material impact on either the investment risk or the expected return from an investment. It does not screen out companies from its investment universe purely on the grounds of poor social, environmental or subjective ethical records. Instead it adopts a positive engagement approach whereby social, environmental and ethical matters are discussed with management with the aim of improving procedures and attitudes.

### Directors

Mr Simon Duckworth was appointed as a Director on 24 February 2003. The other Directors served as Directors throughout the year to 31 December 2003.

Mr Walther, having been a Director for more than nine years, is subject to annual re-election. Mr Simpson and Mr Björkman retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Mr Simon Fraser has waived his entitlement to Directors' fees.

No Director is under a contract of service with the Company and no contracts existed during or at the end of the financial period in which any Director was materially interested and which were significant in relation to the Company's business, except as disclosed above in relation to Mr Fraser's interest in the Management Agreement. There have been no other related party transactions requiring disclosure under Financial Reporting Standard ("FRS") 8. The interests of the Directors in the ordinary shares of the Company as at 31 December 2003 and 31 December 2002 are shown below. There have been no changes in these holdings since the year end.

|                             | 31 December 2003<br>shares | 31 December 2002<br>shares |
|-----------------------------|----------------------------|----------------------------|
| Robert Walther              | 12,251                     | 7,251                      |
| Johan Björkman              | 1,758                      | -                          |
| Simon Duckworth*            | 500                        | -                          |
| Albert Francke <sup>+</sup> | -                          | 6,053                      |
| Simon Fraser                | 6,790                      | 6,786                      |
| David Simpson               | 5,300                      | 5,300                      |

\* appointed as a Director on 24 February 2003  
+ resigned as a Director on 1 February 2003

**Analysis of Ordinary Shareholders**  
as at 31 December 2003

|                               | Number of Shareholders | % of Issued Share Capital |
|-------------------------------|------------------------|---------------------------|
| Nominee Companies**           | 2,121                  | 59.22                     |
| Individuals*                  | 13,266                 | 35.58                     |
| Banks/Bank Nominees           | 35                     | 2.67                      |
| Others                        | 40                     | 0.99                      |
| Assurance/Insurance Companies | 8                      | 0.61                      |
| Limited Companies             | 63                     | 0.57                      |
| Investment Trusts & Funds     | 13                     | 0.32                      |
| Pension Funds                 | 4                      | 0.04                      |
| <b>Total</b>                  | <b>15,550</b>          | <b>100.0</b>              |

\* Includes Share Plan, PEP and ISA investors

\*\* Nominees may also include individual shareholders

**Substantial Share Interests**

As at 16 March 2004 notification had been received of the following interests in 3% or more of the issued share capital of the Company:

|                                       | %    |
|---------------------------------------|------|
| Legal & General Investment Management | 3.05 |

At 16 March 2004, 28.21% of the issued share capital was held by investors in the Fidelity Investment Trust PEP, Fidelity Individual Savings Account and the Fidelity Investment Trust Share Plan.

**Annual General Meeting**

At the Annual General Meeting, resolutions will be proposed to renew the Directors' authority to allot securities in the Company. The authorities sought by these resolutions are to replace the existing powers of the Directors which expire on the date of the Annual General Meeting and will provide the Directors with the flexibility to issue further ordinary shares if they deem it appropriate to do so. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders.

**Resolution 7** provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £786,290. If passed, this resolution will enable the Directors to allot a maximum of 3,145,161 ordinary shares which represents approximately 5% of the issued ordinary share capital of the Company as at 16 March 2004.

This authority provides the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares should any favourable opportunities arise to the advantage of shareholders. If new ordinary shares are allotted for cash, Section 89(1) of the Companies Act 1985 requires such new shares to be offered to existing holders of ordinary shares ("pre-emption rights"). In certain circumstances it is beneficial for the Directors to allot shares for cash otherwise than pro-rata to existing shareholders and the Companies Act 1985 provides for shareholders to give such power to the Directors by waiving their pre-emption rights.

**Resolution 8** is a special resolution disapplying pre-emption rights and granting authority to the Directors, without the need for further specific shareholder approval, to make allotments of equity securities for cash by way of (a) rights issues where practical considerations, such as fractions and foreign securities laws, make this desirable, and (b) other issues up to an aggregate nominal value of £786,290 (5% of the issued share capital of the Company).

The authority to issue ordinary shares for cash under Resolution 8 will, inter alia, enable the Directors to issue additional new ordinary shares to participants in the Fidelity Investment Trust Share Plan and ISA in the event that the ordinary shares are trading at a premium to their net asset value. The Directors would only intend to use this power if such premium were in excess of 2% and they considered that it was in the interests of shareholders to do so.

**Resolution 9** is a special resolution which renews the Directors' authority to repurchase the Company's shares for

## Directors' Report

cancellation. It is proposed that the Board be authorised to make arrangements to purchase through the London Stock Exchange up to 9,400,000 ordinary shares of 25 pence (equivalent to 14.94% of the shares in issue at 16 March 2004). By utilising this power to repurchase shares when they are trading at a discount to net asset value, the Company will increase the resulting net asset value per share for remaining shareholders. Purchases of shares will be made at the discretion of the Board and within guidelines set from time to time by the Board in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing net asset value.

The Directors recommend that shareholders vote in favour of these resolutions.

The full text of the resolutions is set out in the Notice of Meeting contained on pages 42 to 44.

### Corporate Governance

Full details are given in the Application of Corporate Governance on pages 19 to 21.

### Statement of Directors' Responsibilities

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the net revenue of the Company for that period. In preparing the accounts 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable

accuracy at any time the financial position of the Company and to enable them to ensure that the accounts 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.

The financial statements may be published on a website that is managed by an organisation other than the Manager or the Board of Directors. The Auditors have represented to your Board that their work does not involve any consideration of the maintenance and integrity of such a website and accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were approved. Visitors to any website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdictions.

### Independent Auditors

The Company's Auditors, PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, are willing to continue in office and, in accordance with Sections 385 and 390A of the Companies Act 1985, resolutions concerning their remuneration and re-appointment will be proposed at the Annual General Meeting.

*Rebecca L. Botenwood*

By Order of the Board  
Fidelity Investments International  
Secretary

16 March 2004

## Application of Corporate Governance

The Committee on Corporate Governance published its latest report on the principles of good governance and code of best practice (the "Combined Code") in July 2003. Whilst the Company will only be required to comply with the requirements of the new Combined Code for the year ended 31 December 2004, the Directors have included a number of the new requirements in this report.

The Company is committed to high standards of corporate governance. The Board has put in place a framework for corporate governance, which it believes is appropriate for an investment trust company and which will enable the Company to comply with the relevant provisions of the Combined Code and the provisions of the AITC Code of Corporate Governance.

The Board considers that the Company has complied with the provisions contained within the Combined Code issued in June 1998 throughout the year ended 31 December 2003, except where disclosed below, and this statement describes how the relevant principles of governance are applied to the Company.

### Directors

**The Board** – The Board of Directors has the responsibility for the Company's affairs. All matters which are not delegated to the Company's Manager under the Management Agreement are reserved for the Board's decision. Matters reserved for the Board include, inter alia, decisions on gearing, Board appointments, appointment of the Company Secretary, strategy, Company structure and risk management strategy.

The Board currently consists of five non-executive Directors, of which four are independent of the Company's Manager. Mr Simon Fraser is an employee of the Manager and is therefore not independent. In considering the independence of the Chairman, who has served as a Director for more than nine years, the Board has taken note of the AITC Code on Corporate Governance and concluded that lengthy service on a board does not of itself compromise independence from the Manager and it believes that Robert Walther is therefore an independent Director. These independent Directors form the members of the Audit Committee and the Management Engagement Committee.

The Board considers that it meets sufficiently regularly to discharge its duties effectively and the following table gives the attendance record for the meetings held during the year:

|                 | Board Meetings |          | Audit Committee Meetings |          | Management Engagement Committee Meeting |          |
|-----------------|----------------|----------|--------------------------|----------|---|----------|
|                 | Held           | Attended | Held                     | Attended | Held                                    | Attended |
| Robert Walther  | 4              | 4        | 2                        | 2        | 1                                       | 1        |
| David Simpson   | 4              | 4        | 2                        | 2        | 1                                       | 1        |
| Johan Björkman  | 4              | 4        | 2                        | 2        | 1                                       | 1        |
| Simon Fraser    | 4              | 4        | n/a                      | n/a      | n/a                                     | n/a      |
| Simon Duckworth | 4              | 4        | 2                        | 2        | 1                                       | 1        |

**Chairman and chief executive** - The Company does not have a chief executive officer as such but, by virtue of employing a management company, these roles are separated. As the Board consists entirely of non-executive Directors, the Board has concluded that there is no need to appoint a senior independent Director. This is in accordance with the AITC Code on Corporate Governance.

**Board balance** - The Board consists of Directors who between them, have good knowledge and wide experience of business in Europe and of investment trusts. Biographical details of all Directors including their directorships are given on page 4 of this report. The Board ensures that it conducts its business at all times with only the interests of the shareholders in mind and quite independently of any other associations. It meets at least four times a year and endeavours to provide leadership in terms of the direction of the Company. Between these meetings there is regular contact with the Manager.

**Supply and agenda of information** - The quarterly Board meeting papers are the key source of regular information for the Board, the contents of which are determined by the Board and contain sufficient information on the financial condition of the Company. Key representatives of the Manager attend each Board meeting, enabling the Board to probe further on matters of concern or seek clarification on certain issues. The Directors have access to the advice and services of the Company Secretary through its appointed representative, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Directors also have the

## Application of Corporate Governance

ability to take independent professional advice, if necessary, at the Company's expense. The Company maintains Directors' and Officers' liability insurance through the Manager.

**Appointments to the Board** – The Company complies with the requirements of the AITC Code on Corporate Governance in respect of appointments to the Board. Whilst the independent Directors take the lead in the appointment of new Directors, any proposal for a new Director will be discussed and approved by all of the Board. As a consequence, there is no "Nomination Committee". External consultants may be used to identify potential candidates. Upon appointment, each Director receives training on the investment operations and administration functions of the Company, together with a summary of their duties and responsibilities. The terms and conditions of appointment of Directors are available for inspection at the registered office of the Company.

**Performance evaluation** – A process for the evaluation of the Board, its Committees and its Directors has been put in place to enable the Board to comply with this requirement for the year ending 31 December 2004. This takes the form of written questionnaires and interviews.

**Re-election** - As required by company law, all newly appointed Directors stand for election by the shareholders at the next Annual General Meeting following their appointment. The Directors retire by rotation and offer themselves for re-election by shareholders every three years. Directors who have reached the age of 70 are subject to annual re-election. Directors who have served on the Board for more than nine years are subject to annual re-election. The representative of the Manager will be subject to annual re-election from 2005. A procedure has been put in place whereby formal letters of appointment, which specify the terms of appointment, are issued to new Directors on appointment and to existing Directors as they retire and are subject to re-election at the Annual General Meeting.

**Directors' remuneration** - The level of Directors' fees is determined by the whole Board and therefore a separate "Remuneration Committee" has not been appointed. Since all Directors are non-executive, the Company is not required to comply with the principles of the Code in respect of executive directors' remuneration. Directors' fees are disclosed fully in each Annual Report (see the Directors'

Remuneration Report on page 22).

**Shareholders** – The Board regularly monitors the shareholder profile of the Company and liaises with the Manager and the Company's broker to canvass shareholder opinion and communicate its views to shareholders. The Board is concerned to provide the maximum opportunity for dialogue between the Company and shareholders. It believes the Company's institutional shareholders do have proper access to the Manager at any time and to the Board if they so wish. If any shareholder wishes to contact a member of the Board directly they should contact the Company Secretary whose details are given on page 41. All shareholders, particularly individual shareholders, are encouraged to attend the Annual General Meeting at which there is always a presentation of the past year's results and the forthcoming year's prospects, followed by the opportunity to meet the Management and the Board.

All proxy votes are counted and, except where a poll is called, are reported for each resolution after it has been dealt with on a show of hands.

The Notice of Meeting on pages 42 to 44 sets out the business of the Annual General Meeting. A separate resolution is proposed on each substantially separate issue including the Annual Report and Accounts.

The Chairman of the Board and the Chairman of the Audit Committee will be available to answer questions at the Annual General Meeting.

The Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting.

### Accountability and Audit

**Financial Reporting** - Set out on page 18 is a statement by the Directors of their responsibilities in respect of the accounts. The Auditors have set out their reporting responsibilities within the Independent Auditors' Report on pages 23 and 24.

**Going concern** - The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts since the assets of the Company consist mainly of securities which are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

**Internal control** - The Code requires the Directors to review the effectiveness of the Company's systems of internal control. The identification, control and evaluation of risk is formulated by a series of quarterly investment performance reports, a semi-annual internal controls report and quarterly compliance reports as provided by the Manager. The systems of internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material mis-statement or loss. The Board has contractually delegated to external agencies, including the Investment Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the day-to-day accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered including the control systems in operation in so far as they relate to the affairs of the Company.

The Company's Audit Committee meets with representatives of the Investment Manager and receives reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company. It reviews the annual and interim accounts and reviews the nature and scope of the external audit and the findings from the Company's statutory audit. The Board carries out a risk and control assessment including a review of the Manager's risk management processes. The key element of this assessment is the semi-annual internal controls report prepared by the Manager for its investment trust clients. The internal controls report sets out the Manager's control policies and procedures with respect to the management of its clients' investments. Whilst the Company, in common with most investment trusts, has no internal audit department, the effectiveness of these controls is monitored by the Manager's compliance and internal audit functions. The Audit Committee has received and reviewed the internal controls report on the effectiveness of the internal controls maintained on behalf of the Company, and an annual compliance report from the Manager's Director of Compliance. By means of the procedures set out above and in accordance with "Internal Control: Guidance for Directors on the Combined Code" published by the Working Party of the Institute of Chartered Accountants in England and Wales, the Directors have established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and have reviewed the

effectiveness of the internal control systems throughout the year.

**Audit Committee and Independent Auditors** - As noted earlier, an Audit Committee has been established, consisting of all the independent Directors, which is chaired by Mr David Simpson. The Board has taken note of the suggestion that a member of the Audit Committee should have recent and relevant financial experience and believes that the members of this Committee have the necessary skills and experience to discharge their responsibilities fully. The Committee's authority and duties are clearly defined in its written terms of reference which are available for inspection at the Company's registered office. These include responsibility for reviewing the annual and interim reports, annually reviewing the scope and results of the audit and the effectiveness and cost of the audit process. They also include responsibility for reviewing and monitoring the external Auditors' independence and objectivity with particular regard to the provision of non-audit services. The Audit Committee of the Board meets with the Independent Auditors at least once a year to review these and other appropriate matters.

**Management Engagement Committee** - The Management Engagement Committee, with written terms of reference, meets once a year and considers both the continuation and terms of the Management Agreement. The Committee consists of all the independent Directors and is chaired by Mr Robert Walther.

**Institutional shareholders** - The Board has adopted the Manager's Principles of Ownership in relation to investments. These principles include the pursuit of an active investment policy through portfolio management decisions, voting on resolutions at general meetings and maintaining a continuing dialogue with the management of investee companies. In its Principles of Ownership, the Manager expressly declares that it supports the Statement of Principles drawn up by the Institutional Shareholders' Committee setting out the responsibilities of institutional shareholders and agents.

The Manager instructs proxy voting on behalf of the Company in accordance with the Manager's existing guidelines and policies.

On behalf of the Board  
Robert Walther  
16 March 2004

## Directors' Remuneration Report

**Remuneration Committee** - As the Board of Directors is comprised solely of non-executive Directors, it is exempt under the Listing Rules from appointing a Remuneration Committee. The determination of the Directors' fees is a matter dealt with by the whole Board.

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £75,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil and the time committed to the Company's affairs.

No Director has a service contract with the Company. The Company does not offer payments to Directors on termination.

### Performance from 31 December 1998 to 31 December 2003

The Company's performance is measured against the FTSE World Europe (ex UK) Index as this is the most appropriate in respect of its asset allocation.



### Remuneration of Directors \*

| Name                           | 2003<br>Fees<br>£'000 | 2002<br>Fees<br>£'000 |
|--------------------------------|-----------------------|-----------------------|
| Robert Walther                 | 16                    | 16                    |
| Barry Bateman <sup>(1)</sup>   | -                     | -                     |
| Johan Björkman                 | 11                    | 11                    |
| Simon Duckworth <sup>(2)</sup> | 9                     | -                     |
| Albert Francke <sup>(3)</sup>  | 3                     | 11                    |
| Simon Fraser <sup>(4)</sup>    | -                     | -                     |
| David Simpson                  | 11                    | 11                    |
| <b>Total</b>                   | <b>50</b>             | <b>49</b>             |

No Director received any bonus, taxable expenses, compensation for loss of office or non-cash benefits for the year ended 31 December 2003 or the year ended 31 December 2002.

(1) Mr Bateman waived his Director's fees of £6,200 in 2002. He resigned as a Director on 26 July 2002.

(2) Mr Duckworth was appointed as a Director on 24 February 2003.

(3) Mr Francke resigned as a Director on 1 February 2003.

(4) Mr Fraser was appointed as a Director on 26 July 2002 and waived his Director's fees of £11,000 in 2003 and £4,800 in 2002.

\* audited information.

With effect from 1 January 2004 Directors' fees have been increased to reflect the additional work and responsibility for Directors as follows:-

Non-executive Directors (Johan Björkman and Simon Duckworth): £13,500 per annum.

Chairman of the Audit Committee (David Simpson): £15,000 per annum.

Chairman of the Board (Robert Walther): £18,500 per annum.

Mr Simon Fraser has waived his fees of £13,500 per annum.

On behalf of the Board

Robert Walther

16 March 2004

## **Independent Auditors' Report to the Members of Fidelity European Values PLC**

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We have audited the financial statements which comprise the Statement of Total Return, the Balance Sheet and the Cash Flow Statement and the related notes 1 to 23 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report (the "auditable part").

### **Respective Responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the annual report, the *Directors' Remuneration 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 and the auditable part of the Directors' Remuneration Report 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 into 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 whether the financial statements and the auditable part of the Directors' Remuneration Report have been 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 only the Investment Manager's Report, the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement and the Corporate Governance statement.

We review whether the Corporate Governance statement reflects the Company's compliance with the seven provisions of the 1998 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

### **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 and the auditable part of the Directors' Remuneration Report. 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 and the auditable part of the Directors' Remuneration Report 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.

# Independent Auditors' Report to the Members of Fidelity European Values PLC

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## 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 total return and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

16 March 2004

## Notes:

- A The maintenance and integrity of the Fidelity European Values page on the Fidelity website is the responsibility of the Investment Manager; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for the information presented on the website.
- B Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

## Statement of Total Return (incorporating the revenue account)

for the year ended 31 December 2003

|  | notes | 2003             |                  |                | 2002             |                  |                 |
|--|-------|------------------|------------------|----------------|------------------|------------------|-----------------|
|  |       | revenue<br>£'000 | capital<br>£'000 | total<br>£'000 | revenue<br>£'000 | capital<br>£'000 | total<br>£'000  |
| Gains/(losses) on investments  | 10    | -                | 115,874          | 115,874        | -                | (25,981)         | (25,981)        |
| Income   | 2     | 11,235           | -                | 11,235         | 9,938            | -                | 9,938           |
| Investment management fee  | 3     | (4,674)          | -                | (4,674)        | (4,365)          | -                | (4,365)         |
| Other expenses   | 4     | (942)            | -                | (942)          | (570)            | -                | (570)           |
| Exchange gains   |       | -                | 490              | 490            | -                | 538              | 538             |
| Repurchase of shares   |       | -                | (926)            | (926)          | -                | (124)            | (124)           |
| <b>Net return/(loss) before finance costs and taxation</b>   |       | <b>5,619</b>     | <b>115,438</b>   | <b>121,057</b> | <b>5,003</b>     | <b>(25,567)</b>  | <b>(20,564)</b> |
| Interest payable   | 6     | (3,283)          | -                | (3,283)        | (3,018)          | -                | (3,018)         |
| Exchange losses on loans   | 16    | -                | (4,974)          | (4,974)        | -                | (3,645)          | (3,645)         |
| <b>Return/(loss) on ordinary activities before tax</b>   |       | <b>2,336</b>     | <b>110,464</b>   | <b>112,800</b> | <b>1,985</b>     | <b>(29,212)</b>  | <b>(27,227)</b> |
| Tax on ordinary activities   | 7     | (1,120)          | -                | (1,120)        | (917)            | -                | (917)           |
| <b>Return/(loss) on ordinary activities after tax for the year attributable to equity shareholders</b> |       | <b>1,216</b>     | <b>110,464</b>   | <b>111,680</b> | <b>1,068</b>     | <b>(29,212)</b>  | <b>(28,144)</b> |
| Dividend   | 8     | (941)            | -                | (941)          | (759)            | -                | (759)           |
| <b>Transfer to/(from) reserves</b>   |       | <b>275</b>       | <b>110,464</b>   | <b>110,739</b> | <b>309</b>       | <b>(29,212)</b>  | <b>(28,903)</b> |
| <b>Return per ordinary share</b>   |       |                  |                  |                |                  |                  |                 |
| Basic  | 9     | 1.93p            | 175.56p          | 177.49p        | 1.69p            | (46.32p)         | (44.63p)        |

The revenue column of this statement is the profit and loss account of the Company.  
All revenue and capital items in the above statement derive from continuing operations.  
No operations were acquired or discontinued in the year.

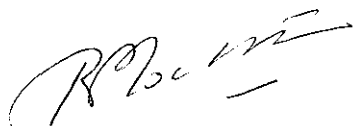
The notes on pages 28 to 39 form an integral part of the accounts

# Balance Sheet

as at 31 December 2003

|   |       | 2003           | 2002           |
|---|-------|----------------|----------------|
|   | notes | £'000          | £'000          |
| <b>Fixed assets</b>   |       |                |                |
| Investments   | 10    | 469,500        | 348,059        |
| <b>Current assets</b>   |       |                |                |
| Debtors - amounts falling due within one year                   | 12    | 7,234          | 1,552          |
| Cash at bank  |       | 1,249          | 8,079          |
|   |       | <b>8,483</b>   | <b>9,631</b>   |
| <b>Creditors - amounts falling due within one year</b>          | 13    | (7,170)        | (2,590)        |
| <b>Net current assets</b>                                       |       | <b>1,313</b>   | <b>7,041</b>   |
| <b>Total assets less current liabilities</b>                    |       | <b>470,813</b> | <b>355,100</b> |
| <b>Creditors - amounts falling due after more than one year</b> |       |                |                |
| Fixed rate unsecured loans                                      | 14    | (63,557)       | (58,583)       |
| <b>Total net assets</b>   |       | <b>407,256</b> | <b>296,517</b> |
| <b>Capital and reserves</b>                                     |       |                |                |
| Called up share capital   | 15    | 15,725         | 15,781         |
| Share premium account   | 16    | 58,615         | 58,615         |
| Capital redemption reserve                                      | 16    | 100            | 44             |
| Capital reserve - realised                                      | 16    | 245,461        | 220,156        |
| Capital reserve - unrealised                                    | 16    | 83,589         | (1,570)        |
| Revenue reserve   | 16    | 3,766          | 3,491          |
| <b>Total equity shareholders' funds</b>                         | 18    | <b>407,256</b> | <b>296,517</b> |
| <b>Net asset value per ordinary share:</b>                      |       |                |                |
| Basic   | 17    | 647.43p        | 469.73p        |

The accounts on pages 25 to 39 were approved by the Board of Directors on 16 March 2004 and were signed on its behalf by:



Robert Walther, Chairman

The notes on pages 28 to 39 form an integral part of these accounts

## Cash Flow Statement

for the year ended 31 December 2003

|  |              | <b>2003</b>    | <b>2002</b>     |
|--|--------------|----------------|-----------------|
|  | <b>notes</b> | <b>£'000</b>   | <b>£'000</b>    |
| <b>Operating activities</b>  |              |                |                 |
| Investment income received   |              | 9,397          | 8,298           |
| Interest received  |              | 185            | 252             |
| Investment management fee paid   |              | (4,397)        | (4,450)         |
| Directors' fees paid   |              | (26)           | (47)            |
| Other cash payments  |              | (582)          | (712)           |
| <b>Net cash inflow from operating activities</b>                             | 21           | <b>4,577</b>   | <b>3,341</b>    |
| <b>Returns on investments and servicing of finance</b>                       |              |                |                 |
| Interest paid  |              | (3,300)        | (3,032)         |
| <b>Net cash outflow from returns on investments and servicing of finance</b> |              | <b>(3,300)</b> | <b>(3,032)</b>  |
| <b>Taxation</b>  |              |                |                 |
| Overseas tax recovered   |              | 194            | 659             |
| UK corporation tax paid  |              | -              | (381)           |
| <b>Tax recovered</b>   |              | <b>194</b>     | <b>278</b>      |
| <b>Financial investment</b>  |              |                |                 |
| Purchases of investments   |              | (364,466)      | (291,770)       |
| Exchange gains   |              | 600            | 452             |
| Disposals of investments   |              | 357,355        | 287,511         |
| <b>Net cash outflow from financial investment</b>                            |              | <b>(6,511)</b> | <b>(3,807)</b>  |
| <b>Equity dividend paid</b>  |              | <b>(754)</b>   | <b>(1,260)</b>  |
| <b>Net cash outflow before financing</b>                                     |              | <b>(5,794)</b> | <b>(4,480)</b>  |
| <b>Financing</b>   |              |                |                 |
| Repurchase of ordinary shares  |              | (926)          | (124)           |
| Issue of ordinary shares   |              | -              | 1,690           |
| Repayment of Equity Index-Linked Loan Stock                                  |              | -              | (26,869)        |
| <b>Net cash outflow from financing</b>                                       |              | <b>(926)</b>   | <b>(25,303)</b> |
| <b>Decrease in cash</b>  | 19           | <b>(6,720)</b> | <b>(29,783)</b> |

The notes on pages 28 to 39 form an integral part of these accounts

## Notes to the Accounts

### 1 Accounting policies

A summary of the accounting policies used is set out below. The Company has prepared its accounts in accordance with the AITC Statement of Recommended Practice ("SORP") for Investment Trusts dated January 2003. No prior year adjustments resulted from the adoption of the new SORP.

- a) The accounts have been prepared in accordance with applicable accounting standards in the United Kingdom and under the historical cost convention, modified to include the revaluation of fixed asset investments and on the assumption that approval as an investment trust will be granted.
- b) Income from equity investments is credited to the revenue account on the date on which it is ex-dividend unless there is sufficient evidence that they should be treated as capital. Interest receivable on fixed interest securities is accounted for on an accruals basis. Franked dividends are accounted for net of any tax credit. Unfranked investment income includes tax deducted at source. Interest receivable on short-term loans and deposits, interest payable and expenses of management are dealt with on an accruals basis. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves.
- c) Transactions denominated in foreign currencies are calculated in sterling at the rate of exchange ruling as at the date of transactions. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Realised and unrealised capital gains and losses, including exchange differences on the translation of foreign currency assets and liabilities, are dealt with in capital reserves realised and unrealised.
- d) Listed investments are valued at middle market prices. Unlisted investments are valued at market prices ruling where an organised market in such investments exists; other unquoted investments are included at Directors' valuation. Where a price is not readily available the holding would be valued at cost unless circumstances indicate a different valuation is warranted. In general, valuations are increased where a substantial arm's length transaction has occurred subsequent to acquisition, at a price higher than cost. Valuations are decreased where subsequent transactions have taken place at a price lower than cost or where Fidelity's Fair Value Committee is aware that the company is experiencing operating difficulties.
- e) All expenses are accounted for on an accruals basis and are charged in full to the revenue account within the Statement of Total Return. Finance costs are calculated and allocated to accounting periods over the term of the loan on the effective yield basis.
- f) *Gains and losses on the realisation of investments and realised exchange differences of a capital nature are accounted for in the capital reserve - realised.*

*Increases and decreases in the valuation of investments held at the year end and unrealised exchange differences of a capital nature are accounted for in the capital reserve - unrealised.*

- g) Deferred taxation is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date, where transactions or events that result in an obligation to pay more, or a right to pay less tax in the future have occurred. A deferred tax asset is recognised when it is more likely than not that the asset will be recoverable.

Deferred tax is measured on a non-discounted basis at the rate of Corporation Tax that is expected to apply when the timing differences are expected to reverse.

## Notes to the Accounts

### 2 Income

|                                | <b>2003</b><br><b>£'000</b> | <b>2002</b><br><b>£'000</b> |
|--------------------------------|-----------------------------|-----------------------------|
| <b>Income from investments</b> |                             |                             |
| Overseas dividends             | 10,997                      | 9,556                       |
| Overseas scrip dividends       | 61                          | 26                          |
| Fixed interest                 | (8)                         | 104                         |
|                                | <u><b>11,050</b></u>        | <u><b>9,686</b></u>         |
| <b>Other income</b>            |                             |                             |
| Deposit interest               | 185                         | 252                         |
| <b>Total income</b>            | <u><b>11,235</b></u>        | <u><b>9,938</b></u>         |
| <b>Total income comprises:</b> |                             |                             |
| Dividends                      | 11,058                      | 9,582                       |
| Interest                       | 177                         | 356                         |
|                                | <u><b>11,235</b></u>        | <u><b>9,938</b></u>         |
| <b>Income from investments</b> |                             |                             |
| Listed overseas                | 11,050                      | 9,686                       |
|                                | <u><b>11,050</b></u>        | <u><b>9,686</b></u>         |

### 3 Investment management fee

|                           | <b>2003</b><br><b>£'000</b> | <b>2002</b><br><b>£'000</b> |
|---------------------------|-----------------------------|-----------------------------|
| Investment management fee | 4,145                       | 3,789                       |
| Irrecoverable VAT thereon | 529                         | 576                         |
|                           | <u><b>4,674</b></u>         | <u><b>4,365</b></u>         |

A summary of the terms of the Management Agreement is given in the Company Summary on page 1.

### 4 Other expenses

|                        | <b>2003</b><br><b>£'000</b> | <b>2002</b><br><b>£'000</b> |
|------------------------|-----------------------------|-----------------------------|
| Directors' fees        | 50                          | 49                          |
| Other                  | 877                         | 507                         |
| Auditors' remuneration |                             |                             |
| Audit                  | 15                          | 14                          |
|                        | <u><b>942</b></u>           | <u><b>570</b></u>           |

## Notes to the Accounts

### 5 Directors' fees

|  | 2003<br>£'000 | 2002<br>£'000 |
|--|---------------|---------------|
| Directors' fees (including national insurance contributions) | 50            | 49            |

Details of the breakdown of Directors' fees can be found on page 22 within the Directors' Remuneration Report.

### 6 Interest payable

|   | 2003<br>£'000 | 2002<br>£'000 |
|---|---------------|---------------|
| <b>On loans repayable within five years</b> |               |               |
| Bank overdraft                              | 2             | 1             |
| Fixed rate unsecured loans                  | 3,281         | 3,017         |
|   | <b>3,283</b>  | <b>3,018</b>  |

### 7 Tax on ordinary activities

#### a) Analysis of charge in year

|  | 2003<br>£'000 | 2002<br>£'000 |
|--|---------------|---------------|
| UK Corporation Tax                       | 1,223         | 1,057         |
| Relief for overseas withholding tax      | (1,223)       | (1,057)       |
|  | -             | -             |
| Overseas taxation                        | 1,420         | 1,107         |
| Avoir fiscal and other credits           | (300)         | (190)         |
| Total current tax for year (see note 7b) | <b>1,120</b>  | <b>917</b>    |

## Notes to the Accounts

### b) Factors affecting the tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK for an investment trust company (30%) (2002: 30%).

The differences are explained below.

|   | <b>2003</b>  | <b>2002</b>  |
|---|--------------|--------------|
|   | <b>£'000</b> | <b>£'000</b> |
| Return on ordinary activities before taxation | <b>2,336</b> | <b>1,985</b> |
| Corporation tax at 30% (2002: 30%)            | 701          | 596          |
| Effects of:                                   |              |              |
| Income not included for tax purposes          | -            | (19)         |
| Tax on avoird fiscal and other credits        | 90           | 56           |
| Overseas taxation                             | 1,420        | 1,107        |
| Double taxation relief                        | (1,223)      | (1,057)      |
| Increase in management expenses               | 432          | 424          |
| Avoird fiscal and other credits               | (300)        | (190)        |
| Current corporation tax charge (note 7a)      | <b>1,120</b> | <b>917</b>   |

Investment trust companies are exempt from tax on capital gains if they meet the Inland Revenue criteria set out in s842 Income and Corporation Taxes Act 1988 for a given period. Therefore, any capital return is not included in the above reconciliation.

c) The deferred tax asset of £855,866 in respect of unutilised expenses at 31 December 2003 (2002: £424,700) has not been recognised as it is unlikely that this asset will be utilised.

### 8 Dividends

|  | <b>2003</b>  | <b>2002</b>  |
|--|--------------|--------------|
|  | <b>£'000</b> | <b>£'000</b> |
| Interim dividend of 1.50 pence per share (2002: final dividend of 1.20 pence)              | 944          | 757          |
| (Over)/under provision of final dividend in prior year due to (repurchase)/issue of shares | (3)          | 2            |
|  | <b>941</b>   | <b>759</b>   |

### 9 Return per ordinary share

|       | <b>revenue</b> | <b>2003<br/>capital</b> | <b>total</b> | <b>revenue</b> | <b>2002<br/>capital</b> | <b>total</b> |
|-------|----------------|-------------------------|--------------|----------------|-------------------------|--------------|
| Basic | 1.93p          | 175.56p                 | 177.49p      | 1.69p          | (46.32p)                | (44.63p)     |

Returns per ordinary shares are based on the net revenue return on ordinary activities after taxation of £1,216,000 (2002: £1,068,000), and the capital appreciation in the year of £110,464,000 (2002: depreciation of £29,212,000) and on 62,918,844 ordinary shares (2002: 63,072,081), being the weighted average number of ordinary shares in issue during the year.

## Notes to the Accounts

### 10 Investments

|   | 2003<br>£'000  | 2002<br>£'000  |
|---|----------------|----------------|
| Listed overseas                             | 464,887        | 347,417        |
| Listed in the UK                            | 4,613          | -              |
| <b>Total listed investments</b>             | <b>469,500</b> | <b>347,417</b> |
| Unlisted investments - Directors' valuation | -              | 642            |
|   | <b>469,500</b> | <b>348,059</b> |

|  | 2003                            |                           |                       |                       |
|--|---------------------------------|---------------------------|-----------------------|-----------------------|
|  | <i>listed overseas</i><br>£'000 | <i>listed UK</i><br>£'000 | <i>other</i><br>£'000 | <i>total</i><br>£'000 |
| Opening book cost                              | 345,398                         | -                         | 667                   | 346,065               |
| Opening unrealised appreciation/(depreciation) | 2,019                           | -                         | (25)                  | 1,994                 |
| <b>Opening valuation</b>                       | <b>347,417</b>                  | <b>-</b>                  | <b>642</b>            | <b>348,059</b>        |
| <b>Movements in the year</b>                   |                                 |                           |                       |                       |
| Purchases at cost                              | 360,307                         | 4,159                     | -                     | 364,466               |
| Sales - proceeds                               | (357,863)                       | (125)                     | (911)                 | (358,899)             |
| Sales - realised gains on sales                | 26,843                          | 22                        | 244                   | 27,109                |
| Increase in unrealised appreciation            | 88,183                          | 557                       | 25                    | 88,765                |
| <b>Closing valuation</b>                       | <b>464,887</b>                  | <b>4,613</b>              | <b>-</b>              | <b>469,500</b>        |
| Closing book cost                              | 374,685                         | 4,056                     | -                     | 378,741               |
| Closing unrealised appreciation                | 90,202                          | 557                       | -                     | 90,759                |
|  | <b>464,887</b>                  | <b>4,613</b>              | <b>-</b>              | <b>469,500</b>        |

|  | 2003<br>£'000  | 2002<br>£'000   |
|--|----------------|-----------------|
| Realised gains/(losses) on sales               | 27,109         | (8,512)         |
| Increase/(decrease) in unrealised appreciation | 88,765         | (17,469)        |
| <b>Gains/(losses) on investments</b>           | <b>115,874</b> | <b>(25,981)</b> |

The annualised portfolio turnover rate for the year is 85.5% (2002: 93.2%)

## Notes to the Accounts

### 11 FRS13 - Financial Instruments

The investment objective of the Company is detailed in the Company Summary on page 1. In pursuit of this objective, the Company may be exposed to various forms of risk, as described below.

The Company's financial instruments comprise:

- Equity shares held in accordance with the Company's investment objective and policies;
- Cash, liquid resources and short-term debtors and creditors that arise from its operations;
- Euro borrowings to finance operations.

The risks arising from the Company's financial instruments are market price risk, which comprises interest rate risk and foreign currency exposure, liquidity risk and counterparty credit risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies have remained unchanged since the beginning of the accounting period.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

Short-term debtors and short-term creditors are excluded from the following analyses.

#### Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements and changes in exchange rates. The Board meets quarterly to consider the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective. The Investment Manager is responsible for actively monitoring the existing portfolio selected in accordance with the overall asset allocation parameters described above and seeks to ensure that individual stocks also meet an acceptable risk-reward profile.

Financial instruments are stated in the Balance Sheet at values which are not materially different to their fair value. Investments are held at market value. The Directors consider this equates to fair value and for cash book value approximates to fair value due to short maturity of the instruments. The exceptions are the long term fixed rate unsecured loans, whose fair values as at 31 December 2003 given below have been calculated by discounting future cash flows at current euro interest rates.

#### Fair value of financial assets and liabilities

|   | 2003                |                     | 2002                |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | fair value<br>£'000 | book value<br>£'000 | fair value<br>£'000 | book value<br>£'000 |
| Fixed rate unsecured loan @ 4.96% per annum | 39,766              | 35,309              | 35,334              | 32,546              |
| Fixed rate unsecured loan @ 5.54% per annum | 32,439              | 28,248              | 28,838              | 26,037              |
|   | <b>72,205</b>       | <b>63,557</b>       | <b>64,172</b>       | <b>58,583</b>       |

## Notes to the Accounts

### Interest rate risk

The Company finances its operations through share capital raised. In addition, financing has been obtained through two euro denominated fixed rate unsecured bank loans, which fall due for repayment on 29 December 2006. The Company is therefore not exposed to a financial risk arising as a result of any increase in euro interest rates on these loans.

The Company's financial assets are mainly invested in equity shares and other investments which neither pay interest nor have a maturity date. The Company also has cash balances of £1,140,668 (2002: £7,972,643) denominated in euros. The rate of interest on the cash balances is currently 2.2% (2002: 3.63%), consequently the risk of a decrease in cash interest earned is low. The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions.

The interest profile of the Company's financial liabilities excluding short-term creditors, as at 31 December 2003 and 2002 was as follows:

|                 | <b>2003</b>  | <b>2002</b>  |
|-----------------|--|--|
| <b>Currency</b> | <b>fixed rate financial liabilities</b>  | <b>fixed rate financial liabilities</b>  |
|                 | <b>£'000</b>   | <b>£'000</b>   |
| Euro            | <u>63,557</u>  | <u>58,583</u>  |
|                 | <b>2003</b>  | <b>2002</b>  |
| <b>Currency</b> | <b>weighted average interest rate</b>  | <b>weighted average interest rate</b>  |
|                 | <b>£'000</b>   | <b>£'000</b>   |
| Euro            | <u>5.22%</u>   | <u>5.22%</u>   |
|                 | <b>2003</b>  | <b>2002</b>  |
| <b>Currency</b> | <b>fixed rate financial liabilities: weighted average period for which rate is fixed</b> | <b>fixed rate financial liabilities: weighted average period for which rate is fixed</b> |
| Euro            | <u>36 months</u>   | <u>48 months</u>   |

### Foreign currency risk

The Company's total return and Balance Sheet can be affected by foreign exchange movements because the Company has assets and income which are denominated in currencies other than the Company's base currency (sterling).

The Board has identified three principal areas where foreign currency risk could impact the Company:

- Movements in rates affecting the value of investments and loans;
- Movements in rates affecting short-term timing differences;
- Movements in rates affecting the income received.

The Company does not hedge the sterling value of investments or other net assets priced in other currencies by the use of derivatives. However, it has increased finance available to the Company for its investment activities with foreign currency borrowings, thereby hedging part of the movements which are a result of exchange movements.

## Notes to the Accounts

The Company might also be subject to short-term exposure from exchange rate movements, for example between the date when an investment is bought or sold and the date when settlement of the transaction occurs. Income denominated in foreign currencies is converted to sterling on receipt.

The following is an analysis of the Company's foreign currency exposure as at 31 December 2003 and 2002:

| Currency                   | 2003   |   |  | 2002   |   |  |
|----------------------------|--|---|--|--|---|--|
|                            | foreign<br>currency<br>monetary<br>assets<br>£'000 | foreign<br>currency<br>monetary<br>liabilities<br>£'000 | net foreign<br>currency<br>monetary<br>assets<br>£'000 | foreign<br>currency<br>monetary<br>assets<br>£'000 | foreign<br>currency<br>monetary<br>liabilities<br>£'000 | net foreign<br>currency<br>monetary<br>assets<br>£'000 |
| Czech koruna               | 3,559  | -   | 3,559  | -  | -   | -  |
| Danish kroner              | 27,249   | -   | 27,249   | 12,266   | (115)   | 12,151   |
| Deutschemark               | 209  | -   | 209  | -  | -   | -  |
| Euro                       | 350,154  | (63,576)  | 286,578  | 241,739  | (58,749)  | 182,990  |
| Hungarian forint           | 2,819  | -   | 2,819  | 1,655  | -   | 1,655  |
| Norwegian krone            | 22,942   | -   | 22,942   | 28,554   | (65)  | 28,489   |
| Swedish krona              | 5,187  | -   | 5,187  | 16,843   | (16)  | 16,827   |
| Swiss francs               | 36,759   | -   | 36,759   | 33,287   | -   | 33,287   |
| US dollar                  | 17,617   | -   | 17,617   | 19,513   | (263)   | 19,250   |
| <b>Total</b>               | <b>466,495</b>                                     | <b>(63,576)</b>   | <b>402,919</b>   | <b>353,857</b>                                     | <b>(59,208)</b>   | <b>294,649</b>   |
| UK sterling                | 11,487   | (7,150)   | 4,337  | 3,833  | (1,965)   | 1,868  |
| <b>Balance sheet total</b> | <b>477,982</b>                                     | <b>(70,726)</b>   | <b>407,256</b>   | <b>357,690</b>                                     | <b>(61,173)</b>   | <b>296,517</b>   |

### Liquidity risk

The Company's assets mainly comprise readily realisable securities, which can be easily sold to meet funding commitments if necessary. Short-term flexibility is achieved by the use of overdraft facilities as required. Details of the Company's borrowing commitments are explained in note 14 to the accounts.

The maturity profile of the Company's financial liabilities at 31 December 2003 and 2002:

|  | 2003<br>£'000 | 2002<br>£'000 |
|--|---------------|---------------|
| After more than two years but less than five years | 63,557        | 58,583        |
|  | <b>63,557</b> | <b>58,583</b> |

The Company does not have any undrawn committed borrowing facilities.

### Counterparty risk

Certain transactions in securities that the Company enters into expose it to the risk that the counterparty will not deliver either the shares (on a purchase) or the cash (on a sale) after the Company has fulfilled its responsibilities. There is also a counterparty risk associated with deposit takers.

## Notes to the Accounts

The Company buys and sells investments on a delivery versus payment basis to manage risk.

The Company only buys and sells investments through brokers which have been approved by the Manager as an acceptable counterparty. Additionally, limits are set as to the maximum exposure to any broker at any time, the limits being reviewed on a regular basis.

### 12 Debtors - amounts falling due within one year

|                                       | 2003<br>£'000 | 2002<br>£'000 |
|---------------------------------------|---------------|---------------|
| Securities sold for future settlement | 1,776         | 232           |
| Overseas tax recoverable              | 613           | 545           |
| Currency receivable                   | 4,306         | 527           |
| Other debtors                         | 539           | 248           |
|                                       | <u>7,234</u>  | <u>1,552</u>  |

### 13 Creditors - amounts falling due within one year

|  | 2003<br>£'000 | 2002<br>£'000 |
|--|---------------|---------------|
| Securities purchased for future settlement | 10            | 71            |
| Proposed dividend payable                  | 944           | 757           |
| Currency payable                           | 4,313         | 528           |
| Loan interest payable                      | 9             | 26            |
| Other creditors                            | 1,894         | 1,208         |
|  | <u>7,170</u>  | <u>2,590</u>  |

### 14 Creditors - amounts falling due after more than one year

|   | 2003<br>£'000 | 2002<br>£'000 |
|---|---------------|---------------|
| Fixed rate unsecured loan @ 4.96% per annum | 35,309        | 32,546        |
| Fixed rate unsecured loan @ 5.54% per annum | 28,248        | 26,037        |
|   | <u>63,557</u> | <u>58,583</u> |

The fixed rate loan from The Royal Bank of Scotland plc of euro 50 million was drawn down on 28 December 2001 for a period of five years at an interest rate of 4.96% per annum. The loan is repayable on 29 December 2006.

The fixed rate loan from National Australia Bank of euro 40 million was drawn down in two tranches; euro 33 million on 24 December 2001 and euro 7 million on 28 December 2001, for a period of five years at an interest rate of 5.54% per annum. The loan is repayable on 29 December 2006.

The Company has entered into an arrangement with The Royal Bank of Scotland, whereby if total borrowings exceed 50% of the Company's assets, sufficient money is placed in a charged account with the bank to reduce borrowings to below 50%.

## Notes to the Accounts

The Company has also entered into an arrangement with National Australia Bank, whereby if total borrowings exceed 40% of the Company's assets, sufficient money is placed in a charged account with the bank to reduce borrowings to below 40%.

As at 31 December 2003, there were no cash deposits with the bank subject to a charge in favour of either The Royal Bank of Scotland or National Australia Bank (2002: nil).

Redemption costs may be payable in the event of Directors electing to prepay the unsecured loans.

### 15 Called-up share capital

|  | 2003<br>£'000 | 2002<br>£'000 |
|--|---------------|---------------|
| <b>Authorised:</b>   |               |               |
| 136,000,000 (2002: 136,000,000) ordinary shares of 25 pence each | 34,000        | 34,000        |
| <b>Issued, allotted and fully paid:</b>                          |               |               |
| <b>Beginning of year</b>   |               |               |
| 63,125,233 (2001: 62,873,786) ordinary shares of 25 pence each   | 15,781        | 15,718        |
| 1 January 2002 to 31 December 2002: Repurchase 30,000 shares     | -             | (7)           |
| 1 January 2002 to 31 December 2002: Issue 281,447 shares         | -             | 70            |
| 10 January 2003: Repurchase of 32,000 ordinary shares            | (8)           | -             |
| 15 January 2003: Repurchase of 40,000 ordinary shares            | (10)          | -             |
| 24 January 2003: Repurchase of 80,000 ordinary shares            | (20)          | -             |
| 13 February 2003: Repurchase of 70,000 ordinary shares           | (18)          | -             |
| <b>End of year</b>   | <b>15,725</b> | <b>15,781</b> |
| 62,903,233 (2002: 63,125,233) ordinary shares of 25 pence each   |               |               |

### 16 Reserves

|   | 2003                                 |   |   |   |                             |
|---|--------------------------------------|---|---|---|-----------------------------|
|   | share<br>premium<br>account<br>£'000 | capital<br>redemption<br>reserve<br>£'000 | capital<br>reserve<br>realised<br>£'000 | capital<br>reserve<br>unrealised<br>£'000 | revenue<br>reserve<br>£'000 |
| <b>Beginning of year</b>  | 58,615                               | 44  | 220,156                                 | (1,570)                                   | 3,491                       |
| Exchange gains/(losses) on other net assets                                 | -                                    | -   | 600                                     | (110)                                     | -                           |
| Net gain on realisation of investments                                      | -                                    | -   | 27,109                                  | -   | -                           |
| Net (depreciation)/appreciation therein already recognised in prior periods | -                                    | -   | (1,478)                                 | 1,478                                     | -                           |
| Increase in unrealised appreciation   | -                                    | -   | -                                       | 88,765                                    | -                           |
| Exchange losses on loans  | -                                    | -   | -                                       | (4,974)                                   | -                           |
| Retained net revenue for year   | -                                    | -   | -                                       | -   | 275                         |
| Repurchase of ordinary shares   | -                                    | 56  | (926)                                   | -   | -                           |
| <b>End of year</b>  | <b>58,615</b>                        | <b>100</b>                                | <b>245,461</b>                          | <b>83,589</b>                             | <b>3,766</b>                |

## Notes to the Accounts

### 17 Net asset value per share

The basic net asset value per ordinary share is based on net assets of £407,256,000 (2002 : £296,517,000) and on 62,903,233 (2002 : 63,125,233) ordinary shares, being the number of ordinary shares in issue at the year end.

### 18 Reconciliation of movement in shareholders' funds

|  | 2003<br>£'000  | 2002<br>£'000  |
|--|----------------|----------------|
| <b>Opening shareholders' funds</b>               | 296,517        | 323,763        |
| Issue of shares                                  | -              | 1,657          |
| Total recognised gains/(losses) before dividends | 111,680        | (28,144)       |
| Dividend payable                                 | (941)          | (759)          |
| <b>Closing shareholders' funds</b>               | <b>407,256</b> | <b>296,517</b> |

### 19 Reconciliation of net cash movements to movement in net debt

|   | 2003<br>£'000   | 2002<br>£'000   |
|---|-----------------|-----------------|
| <b>Beginning of year</b>                                | (50,504)        | (44,031)        |
| Net cash outflow  | (6,720)         | (29,783)        |
| Unrealised foreign exchange movement                    | (110)           | 86              |
| Foreign exchange movement on fixed rate unsecured loans | (4,974)         | (3,645)         |
| Repayment of Equity Index-Linked Loan Stock             | -               | 26,869          |
| <b>Change in net debt</b>                               | <b>(11,804)</b> | <b>(6,473)</b>  |
| <b>End of year</b>                                      | <b>(62,308)</b> | <b>(50,504)</b> |

|                             | 2003<br>£'000   | Cash flow<br>£'000 | Exchange<br>movements<br>£'000 | 2002<br>£'000   |
|-----------------------------|-----------------|--------------------|--------------------------------|-----------------|
| <b>Analysis of balances</b> |                 |                    |                                |                 |
| Cash at bank                | 1,249           | (6,720)            | (110)                          | 8,079           |
| Fixed rate unsecured loans  | (63,557)        | -                  | (4,974)                        | (58,583)        |
| <b>End of year</b>          | <b>(62,308)</b> | <b>(6,720)</b>     | <b>(5,084)</b>                 | <b>(50,504)</b> |

## Notes to the Accounts

### 20 Analysis of changes in financing during the year

|   | 2003                      |                |                | 2002                      |                |                |
|---|---------------------------|----------------|----------------|---------------------------|----------------|----------------|
|   | share<br>capital<br>£'000 | loans<br>£'000 | total<br>£'000 | share<br>capital<br>£'000 | loans<br>£'000 | total<br>£'000 |
| <b>Beginning of year</b>                      | 74,440                    | 58,583         | 133,023        | 72,783                    | 54,938         | 127,721        |
| Change in value of fixed rate unsecured loans | -                         | 4,974          | 4,974          | -                         | 3,645          | 3,645          |
| Issue of shares                               | -                         | -              | -              | 1,657                     | -              | 1,657          |
| <b>End of year</b>                            | <b>74,440</b>             | <b>63,557</b>  | <b>137,997</b> | <b>74,440</b>             | <b>58,583</b>  | <b>133,023</b> |

### 21 Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities

|  | 2003<br>£'000 | 2002<br>£'000 |
|--|---------------|---------------|
| Net return before finance costs and taxation     | 5,619         | 5,003         |
| Scrip dividends                                  | (61)          | (26)          |
| Increase/(decrease) in other creditors           | 4,471         | (278)         |
| (Increase)/decrease in other debtors             | (4,070)       | 122           |
| Tax on investment income                         | (1,362)       | (1,480)       |
| <b>Net cash inflow from operating activities</b> | <b>4,577</b>  | <b>3,341</b>  |

### 22 Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments as at 31 December 2003 (2002: nil).

### 23 Transactions with the Manager

The Directors have complied with the provisions of FR58 which require disclosure of related party transactions and balances. Fidelity Investments International is the Manager and Secretary of the Company and details of the services provided and fees paid are given on pages 1 and 15.

## Investor Information

The objective of Fidelity European Values PLC is to achieve long-term capital growth from the stockmarkets of continental Europe.

The Company was launched on 5 November 1991 with one warrant attached to every five shares. The original subscription price for each share was £1. In 2005 and every two years thereafter, shareholders will have the right to approve, or otherwise, the continued existence of the Company. The Company is a member of The Association of Investment Trust Companies ("AITC") from whom general information on investment trusts can be obtained by telephoning 020 7282 5555 (email address: enquiries@aitc.co.uk).

**How to Invest - ordinary shares** can be bought and sold directly through a stockbroker or indirectly via a lawyer, accountant or other independent financial adviser. A number of banks and building societies also offer this service. The shares can also be bought directly through the Fidelity Investment Trust Share Plan and the Fidelity Individual Savings Account ("ISA").

**The Share Plan** allows an investor to make regular monthly payments (minimum £50 per month) or to invest a lump sum (initial minimum £1,000, thereafter £250) into any of the five investment trusts managed by Fidelity. The only plan charge is Government Stamp Duty of 0.5% payable on all share purchases. Any dividends can be reinvested in additional shares or taken as cash, as preferred. Statements and valuations are sent twice yearly. For those investors who use a professional adviser, the Share Plan allows for commission of up to 3% to be paid direct to your adviser.

**The Fidelity ISA** was launched on 6 April 1999. Like its predecessor, the PEP, it allows you to build up your savings free from personal liability to income and capital gains tax. You are able to invest up to £7,000 in the 2003/2004 tax year. There is an initial charge of 3.25% (3.5% from 6 April 2004) and, for those investors who use a professional adviser, the ISA allows for commission of up to 3% to be paid directly to your adviser. The full range of Fidelity's investment trusts is available through

the ISA. For more information about ISAs, you can request a free guide from Fidelity on 0800 41 41 10.

**The Fidelity PEP** - no further new PEP investments may be made, but you may transfer your existing PEP with another PEP plan manager to Fidelity without losing the tax free status.

Since 6 April 2001 the range of investments that can be held in a PEP has been expanded to correspond with those available for investment in an ISA.

For PEP and ISA investors, the reclaimable tax credit attached to dividends is 10% until 5 April 2004. Interest on uninvested cash in a stocks and shares component of an ISA is subject to a 20% flat rate charge, which extinguishes any liability to tax on the interest. The value of tax savings and eligibility to invest in a PEP or an ISA will depend on individual circumstances and all tax rules may change in the future.

The Fidelity ISA and PEP are offered and managed by Financial Administration Services Limited and the Fidelity Share Plan is offered by Fidelity Investments International. Both companies are authorised and regulated by the Financial Services Authority.

For information on how to invest through the Share Plan, PEP or ISA, please contact your financial adviser or call Fidelity free on 0800 41 41 10.

Please note that the value of investments and the income from them may fall as well as rise and the investor may not get back the amount originally invested. Past performance is not a guide to future returns. Fidelity only provides information about its products and will not give investment advice.

Should you wish to seek advice, please contact an independent financial adviser. For the purpose of Sections 21 and 25 of the Financial Services and Markets Act 2000, the content of this report has been approved by Fidelity Investments International, authorised and regulated by the Financial Services Authority.

## Investor Information

**Annual General Meeting** - with this Report you will find an invitation to attend the AGM at midday on 7 May 2004 at Fidelity's London office at 25 Cannon Street. It is hoped that as many shareholders as possible, including those who hold their shares through the Share Plan, PEP or ISA, will take this opportunity to meet the Directors and hear a report from the Investment Manager on the progress of your Company. The formal AGM notice can be found on pages 42 to 44.

**Price Information** - the mid-market price of the ordinary shares is published daily in the Financial Times under the heading "Investment Trusts". The ordinary share price is also published in The Times, The Daily Telegraph and The Independent. You can also obtain current price information by phoning FT Cityline on 0336 43 then 2287. The Reuters code for Fidelity European Values is FEVL.

**NAV Information** - the net asset value of the Company is calculated on a daily basis and released to the London Stock Exchange.

**Capital Gains Tax** - your Directors have been advised that, for the purposes of calculating an investor's possible liability to capital gains tax, the base cost of ordinary shares, acquired at the time of the Company's launch, is 95.90p. All UK individuals, under present legislation, are permitted to have £7,900 of capital gains in the current tax year ie 2003/2004 (£7,700: 2002/2003 tax year) before being liable for capital gains tax. Capital gains are treated as the top slice of income and will be taxable at 10% for taxpayers up to the starting rate limit, 20% for basic rate taxpayers or 40% for higher rate taxpayers.

**Financial Calendar** - the key dates in the Company's calendar for the year from 31 December 2003:

31 December 2003 - financial year end.  
16 March 2004 - announcement of results.  
29 March - publication of this Annual Report.  
7 May - Annual General Meeting.

30 June - half year end.

23 July - announcement of interim results to 30 June.

August - publication of Interim Report.

### Contact Information

**Private investors** can call **free** on 0800 41 41 10, 9am to 6pm, seven days a week.

**Financial advisers** can call **free** on 0800 41 41 81, 8am to 6pm on any business day.

**Existing shareholders** who have specific queries regarding their holding, for example a change of address, should contact the appropriate administrator:-

**Holders of ordinary shares** - the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.  
Telephone: 0870 162 3100

Details of individual shareholdings and other information can also be obtained from the Registrars' website: [www.capitaregistrars.com](http://www.capitaregistrars.com)

**Share Plan investors** - Fidelity Investment Trust Share Plan, Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EHA 1WQ.  
Telephone : 0800 41 41 10  
[www.fidelity.co.uk](http://www.fidelity.co.uk)

**ISA/PEP investors** - Fidelity, using the freephone numbers given above, or by writing to: Financial Administration Services Limited, Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge, Kent TN11 9DZ.  
[www.fidelity.co.uk](http://www.fidelity.co.uk)

**General enquiries** should be made to Fidelity Investments International, the Investment Manager and Secretary, at the Company's registered office: Fidelity Investments International, Investment Trusts, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.  
Telephone : 01732 36 11 44 / Fax : 01737 836 892.  
[www.fidelity.co.uk](http://www.fidelity.co.uk)

## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Fidelity European Values PLC will be held at 25 Cannon Street, London EC4M 5TA, on 7 May 2004 at 12.00 noon for the following purposes:

### Ordinary Business

1. To receive and adopt the Directors' Report and Accounts for the year ended 31 December 2003.
2. To re-elect Mr Walther as a Director.
3. To re-elect Mr Simpson as a Director.
4. To re-elect Mr Björkman as a Director.
5. To approve the Directors' Remuneration Report for the year ended 31 December 2003.
6. To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the Directors to determine their remuneration.

### Special Business

*Resolutions 7 and 8 will, if approved, authorise the Directors to allot a limited number of the currently unissued ordinary shares for cash without first offering such shares to existing ordinary shareholders pro rata to their existing holdings. The limit set by the Board is 5% of the number of ordinary shares of the Company in issue on 16 March 2004. The Directors will only issue new shares under this authority to take advantage of opportunities in the market as they arise and only if they believe it is advantageous to the Company's shareholders to do so.*

To consider and, if thought fit, to pass the following resolutions which will be proposed, Resolution 7 as an ordinary resolution and Resolution 8 as a special resolution:

7. THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £786,290 (approximately 5% of the aggregate nominal amount of the issued share capital of the Company as at 16 March 2004) such authority to expire at the conclusion of the next Annual General Meeting of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry as if the authority conferred by this resolution had not expired.
8. THAT, subject to the passing of Resolution 7 set out above, the Directors be and they are hereby authorised, pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority given by the said Resolution 7 as if Section 89 (1) of the Act did not apply to any such allotment, provided that this power shall be limited:
  - a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of relevant equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise); and

## Notice of Annual General Meeting

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- b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £786,290 (approximately 5% of the aggregate nominal amount of the issued share capital of the Company as at 16 March 2004); and
- c) to the allotment of equity securities at a price of not less than the fully-diluted net asset value per share

and this power shall expire at the conclusion of the next Annual General Meeting of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, save that this authority shall allow the Company to make offers or agreements before the expiry of this authority, and the Directors may allot equity securities in relation to such an offer or agreement as if the authority conferred by this resolution had not expired.

*Resolution 9 is a special resolution which, if approved, will renew the Company's authority to purchase its shares for cancellation. The limit set by the Board is 14.94% of the number of ordinary shares in issue on 16 March 2004. Purchases of shares will be made at the discretion of the Board and within guidelines set from time to time by the Board and in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing net asset value per share, thereby resulting in an increase in net asset value per share.*

9. THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of Section 163 of the Act) of shares of 25p each in the capital of the Company (the "shares") provided that:
- a) the maximum number of shares hereby authorised to be purchased shall be 9,400,000;
  - b) the minimum price which may be paid for a share is 25p;
  - c) the maximum price which may be paid for a share is an amount equal to 105% of the average of the middle market quotations for a share taken from the London Stock Exchange Official List for the five business days immediately preceding the day on which the share is purchased;
  - d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and
  - e) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

By Order of the Board  
Fidelity Investments International  
Secretary  
29 March 2004

Notes:

- 1 A shareholder entitled to attend and vote is entitled to appoint a proxy (or proxies) to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company.
- 2 A form of proxy is enclosed for use by shareholders. Completion and return of the form of proxy will not prevent a shareholder from subsequently attending the meeting and voting in person if they so wish.
- 3 To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is signed (or a copy of any such authority certified notarially or in some other way approved by the Directors), must be deposited with the Company's Registrars, Capita Registrars, P O Box 25, Beckenham, Kent BR3 3BR not less than 48 hours before the time for holding the meeting or adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, not less than 24 hours before the time appointed for the taking of the poll at which it is to be used.
- 4 In the case of joint holders, the vote of the senior who tenders the vote shall be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.
- 5 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered in the Register of Members of the Company at 5.30pm on 5 May 2004 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the Register of Members after 5.30pm on 5 May 2004 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- 6 Shareholders and any proxies or representatives they appoint agree by attending the meeting that they are expressly agreeing that they are willing to receive any communications, including communications relating to the Company's securities, made at the meeting.
- 7 No Director has a service contract with the Company.

Registered Office: Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP

CB17337

Robert Walther (Chairman)

Johan Björkman

Simon Duckworth

Simon Fraser

David Simpson

JPMorgan Chase Bank (London Branch)

125 London Wall

London

EC2Y 5AJ

Fidelity Investments International

Beech Gate

Millfield Lane

Lower Kingswood

Tadworth

Surrey

KT20 6RP

Capita Registrars

The Registry

34 Beckenham Road

Beckenham

Kent

BR3 4TU

Close Brothers Securities (a division of Winterflood Securities Limited)

The Atrium Building

Cannon Bridge

25 Dowgate Hill

London EC4R 2GA

Slaughter and May

One Bunhill Row

London

EC1Y 8YY

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Southwark Towers

32 London Bridge

London

SE1 9SY