



Lincoln National Corporation

Company Profile

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COMPANY OVERVIEW

Lincoln National Corporation is a holding company which operates insurance and investment management businesses through its subsidiary companies. Its operations are divided into four business segments: Lincoln retirement, life insurance, investment management and Lincoln UK. LNC recorded revenues of \$5283.9 million during the fiscal year ended December 2003, an increase of 14% over fiscal 2002.

The company is headquartered in Philadelphia, Pennsylvania and employs over 5600 people.

KEY FACTS

Head Office	Lincoln National Corporation Centre Square West Tower 1500 Market Street Suite 3900 PA 19102-2112 United States
Phone	+1 215 448 1400
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Web Address	http://www.lfg.com
Revenues/turnover (US\$ Mn)	5283.9
Financial Year End	December
Employees	5644
SIC Codes	SIC 6311 Life Insurance
NAICS Codes	52413, 524113
New York Ticker	LNC

BUSINESS DESCRIPTION

LNC is a holding company which operates insurance and investment management businesses through subsidiary companies. These companies use Lincoln Financial Group as their marketing identity.

Through its business segments, LNC sells a wide range of wealth protection and accumulation products. These products include fixed annuities, variable annuities, universal life insurance, variable universal life insurance, term life insurance, other individual insurance coverages, retail mutual funds, college savings plans, savings products and managed account products.

The primary operating subsidiaries that comprise LNC are; The Lincoln National Life Insurance Company, First Penn-Pacific Life Insurance Company, Lincoln Life & Annuity Company of New York, Delaware Management Holdings, Lincoln National (UK), Lincoln Financial Advisors (LFA) and Lincoln Financial Distributors (LFD).

LNC's distribution network consists of two internally owned wholesale and retail business units: LFD and LFA, respectively. LFD, with principal operations in Philadelphia, Pennsylvania, consists of approximately 300 internal and external wholesalers that distribute life insurance, annuities and investment products to a large number of financial intermediaries. LFA is a retail broker/dealer and financial planning firm that offers a full range of financial and estate planning services.

Its operations are divided into four business segments: Lincoln retirement, life insurance, investment management and Lincoln UK.

Lincoln retirement provides tax-deferred investment growth and lifetime income opportunities for its clients through fixed and variable annuities. There are two lines of business within this segment, individual annuities and employer-sponsored markets.

LNC's fixed annuity product offerings include the Lincoln Select and ChoicePlus Fixed Annuities and the StepFive, AccelaRate and ChoiceGuarantee Fixed Annuities.

The variable annuity product line offers up to 36 fund choices from 11 well known advisors.

The life insurance business focuses on the creation and protection of wealth for its clients through life insurance products. The life insurance segment offers both single and survivorship versions of universal life, variable universal life, and interest-sensitive whole life, as well as corporate owned life insurance and term insurance.

The Lincoln National Life Insurance is the company's flagship affiliate and covers life insurance and annuity operations. Lincoln Life is a market leader in developing life insurance solutions for high net worth individuals (investable income of over \$1 million) and business owners. It offers a complete portfolio of life insurance products, including variable universal life, universal life, whole life and term life insurance.

The investment management segment provides investment products and services to both individual and institutional investors. The primary companies within this business segment include Lincoln National Investments, Lincoln National Investment Companies and Delaware Management Holdings.

Lincoln Financial Group in the UK is primarily focused on retaining its existing customers and managing expenses for a closed-block of business in the UK. Lincoln UK's product portfolio principally consists of unit-linked life and pension products.

HISTORY

Wilbur Wynant founded the Fraternal Assurance Society of America in 1902. It was a mutual organization in which surviving members contributed to the death benefits of deceased members. Local organizers restructured the society into a stock company in 1905. Subsequently, they obtained permission to use Lincoln's name.

The company wrote its first policy in 1905 and began to specialize in risk assessment. It consistently expanded through acquisitions.

The company continued expanding throughout the following two decades and in 1968 it formed the holding company Lincoln National, and began to diversify, buying Chicago Title and Trust and other life and reinsurance companies. It also entered the health benefits business, setting up its own HMO and investing in EMPHESYS.

In 1995 Lincoln National purchased Delaware Management Holdings and Laurentian Financial Group. The next year it bought UNUM's group tax-qualified annuity business and in 1997 bought Voyageur Fund Managers, a tax-free-bond fund business.

Lincoln National bought CIGNA's annuity and individual life insurance business and Aetna's US individual life insurance operations in 1998. In 1999, it moved to Philadelphia and sold its individual disability income business. In 2001, Lincoln sold its reinsurance operations to Swiss Re.

In 2002, it acquired Administrative Management Group (AMG), an employee benefits record-keeping firm. AMG, a strategic partner of LNC's retirement segment for several years, provides record keeping services for the Lincoln Alliance Program, along with approximately 400 other clients nationwide.

Lincoln National agreed to sell Delaware International Advisors to Hellman & Friedman Corporation in May 2004.

KEY EMPLOYEES

Name	Job Title	Board	Compensation
Jon A Boscia	Chairman and Chief Executive Officer	Executive Board	\$5,097,571
William J Avery	Director	Non Executive Board	
J Patrick Barrett	Director	Non Executive Board	
Thomas D Bell	Director	Non Executive Board	
Jenne K Britell	Director	Non Executive Board	
John G Drosdick	Director	Non Executive Board	
Eric G Johnson	Director	Non Executive Board	
M Leanne Lachman	Director	Non Executive Board	
Michael F Mee	Director	Non Executive Board	
Ron J Ponder	Director	Non Executive Board	
Jill S Ruckelshaus	Director	Non Executive Board	
Glenn F Tilton	Director	Non Executive Board	
George E Davis	Senior Vice President,	Senior Management	
Robert W Dineen	President and Chief Executive Officer, Lincoln Financial Advisors	Senior Management	
Jude T Driscoll	President and Chief Executive Officer, Lincoln National Investment Companies & Delaware Investments	Senior Management	\$1,900,558
Jason S Glazier	Senior Vice President, Chief Technology Officer and Chief E-Commerce Officer, Lincoln Financial Group	Senior Management	
John H Gotta	Chief Executive Officer, Lincoln Life & Annuity businesses and Executive Vice President, The Lincoln National Life Insurance Company	Senior Management	\$1,918,411
Barbara S Kowalczyk	Senior Vice President and Director of Corporate Development,	Senior Management	
Dennis L Schoff	Senior Vice President and General Counsel, Lincoln Financial Group	Senior Management	
Michael Tallett-William	Chairman and Managing Director, Lincoln UK	Senior Management	

Westley V Thompson	President and Chief Executive Officer, Lincoln Financial Distributors	Senior Management	\$1,325,000
Casey J Trumble	Senior Vice President and Chief Accounting Officer	Senior Management	
Richard C Vaughan	Executive Vice President and Chief Financial Officer, Lincoln Financial Group	Senior Management	\$2,060,116
Priscilla S Brown	Vice President and Director, Investor Relations & Strategic Communications, Lincoln Financial Group	Senior Management	
Dede D DeRosa	Chief Operations Officer, Lincoln Life & Annuity businesses and Senior Vice President, The Lincoln National Life Insurance Company	Senior Management	
Joseph H Hastings	Interim Chief Financial Officer and Executive Vice President, Lincoln National Investment Companies & Delaware Investments	Senior Management	
Joanne O Hutcheson	Chief Operating Officer and Executive Vice President, Lincoln National Investments Companies & Delaware Investments	Senior Management	
Gary W Parker	Chief Product Officer, Lincoln Life & Annuity businesses and Senior Vice President, The Lincoln National Life Insurance Company	Senior Management	
Todd R Stephenson	Chief Financial Officer, Lincoln Life & Annuity businesses and Senior Vice President, The Lincoln National Life Insurance Company	Senior Management	

KEY EMPLOYEE BIOGRAPHIES

Jon A Boscia

Board: Executive Board
Job Title: Chairman and Chief Executive Officer
Since: 1998
Age: 51
Salary: \$850,000
Bonus: \$4,247,571
Total Annual Compensation: \$5,097,571

Mr Boscia joined LNC in 1983, where he served in various management positions and was named president and chief executive officer in 1998. Previously, he held positions in investment, product development and marketing areas of Mellon Bank. He joined the LNC board in 1998 and serves as a member of the development and securities committees.

William J Avery

Board: Non Executive Board
Job Title: Director
Since: 2002

Mr Avery is retired president, chief executive officer and chairman of the board of Crown Cork & Seal. He began his career with Crown Cork & Seal in 1959 as a management trainee. He advanced on to various positions of increasing responsibility throughout the organization, including serving as president and chief operating officer in 1980, chief executive officer in 1989 and in 1990 assumed the additional position as chairman of the board. He serves as a member of the audit and nominating and governance committees of LNC.

J Patrick Barrett

Board: Non Executive Board
Job Title: Director
Since: 1990

Mr Barrett is chairman and chief executive officer of CARPAT Investments, and chairman of both Syracuse Executive Air Service and Bennington Iron Works. Previously, he served as chairman and chief executive officer of Avis. Earlier, he

served as executive vice president, chief financial officer and as a director of Norton Simon. He serves as chairman of the audit committee and as a member of the securities committee of LNC.

Thomas D Bell

Board: Non Executive Board

Job Title: Director

Since: 1988

Mr Bell is president and chief executive officer of Cousins Properties, as well as vice chairman of the board of directors and chairman of the executive committee. Most recently, he served as a senior adviser at Credit Suisse First Boston. He has also served as a special limited partner of Forstmann Little & Company; chairman and chief executive officer of Young & Rubicam; worldwide chairman and chief executive officer of Young & Rubicam Advertising and president and chief executive officer of the Hudson Institute, a leading public policy research organization. He serves as chairman of the compensation committee of LNC.

Jenne K Britell

Board: Non Executive Board

Job Title: Director

Since: 2001

Dr Britell is chairman and chief executive officer of Structured Ventures. She previously held senior US and international positions at GE Capital. She also chaired the boards of directors of several GE-owned banks in Europe. She has held senior management positions in corporate and consumer banking at Citicorp, Dime Bancorp, and Republic New York Corp. In addition, she has served as a trustee of TIAA-CREF, was a charter member of the Defense Advisory Committee on Military Personnel Testing (for the Secretary of Defense) and worked with the World Bank and other international organizations. She serves as a member of the audit and nominating and governance committees of LNC.

John G Drosdick

Board: Non Executive Board

Job Title: Director

Since: 2000

Mr Drosdick is chairman, chief executive officer and president of Sunoco. He previously served as president and chief operating officer of Ultramar Corporation, a petroleum refining and marketing company. He began his career in the petroleum industry with Exxon in 1968. He serves as a member of the audit and compensation committees of LNC.

Eric G Johnson

Board: Non Executive Board

Job Title: Director

Since: 1998

Mr Johnson is president and chief executive officer of Baldwin Richardson Foods Company. Prior to his current position, he purchased Baldwin Ice Cream Company and served as chief executive officer of Johnson Products. He serves as chairman of the development committee and as a member of the securities committee of LNC.

M Leanne Lachman

Board: Non Executive Board

Job Title: Director

Since: 1985

Ms Lachman is president of Lachman Associates, an independent real estate consultancy. She also serves as an executive-in-residence at Columbia Business School. Her previous positions include; principal and managing director of Lend Lease Real Estate Investments, a partner of Schroder Real Estate Associates, which was acquired by Lend Lease, and chief executive officer of Real Estate Research Corporation. She serves as chair of the securities committee and as a member of the compensation and nominating and governance committees of LNC.

Michael F Mee

Board: Non Executive Board

Job Title: Director

Since: 2001

Mr Mee is retired executive vice president and chief financial officer of Bristol-Myers Squibb Company. Prior to joining Bristol-Myers Squibb, he led the reorganization of Wang Laboratories as chairman of the board and earlier served as chief financial officer and director of the company. Previously, he served in various senior level positions at the Norton Company, including senior vice president, chief financial officer

and director. He also worked at Monsanto Company and the Chrysler Corporation. He serves as a member of the audit and compensation committees of LNC.

Ron J Ponder

Board: Non Executive Board

Job Title: Director

Since: 2000

Dr Ponder is executive vice president of information services and chief information officer of WellPoint Health Networks. Prior to joining WellPoint, he was president and chief executive officer of Telecom Media Networks, a Cap Gemini Ernst & Young company, specializing in management consulting and computer services. Previously he was president and chief executive officer of Beechwood Data Systems. He also served in various senior level positions at AT&T Corporation, Sprint Corporation and Federal Express Corporation. He serves as chairman of the nominating and governance committee of LNC.

Jill S Ruckelshaus

Board: Non Executive Board

Job Title: Director

Since: 1975

Ms Ruckelshaus is director of Costco Wholesale Corporation. Previously, she served on the board of Seattle First National Bank, Fred Meyer Corporation and a partner of William D. Ruckelshaus Associates, an environmental consulting firm. She has served as a Commissioner of the United States Commission on Civil Rights and as a delegate to the United Nations Conference on Women. She serves as a member of the development and nominating and governance committees of LNC.

Glenn F Tilton

Board: Non Executive Board

Job Title: Director

Since: 2002

Mr Tilton is chairman, chief executive officer and president of UAL Corporation, the parent company of United Airlines. Before joining UAL, he served as the interim chairman of Dynegy and as vice chairman of the board of directors of ChevronTexaco Corporation. Prior to the 2001 merger of Chevron and Texaco, he was chairman and chief executive officer of Texaco since 2001. He began his career with Texaco in 1970

as a sales trainee and advanced on to various positions of increasing management responsibility throughout the organization. He serves as a member of the audit and compensation committees of LNC.

Robert W Dineen

Board: Senior Management

Job Title: President and Chief Executive Officer, Lincoln Financial Advisors

Age: 54

Mr Dineen was senior vice president and head of Merrill Lynch's managed asset group, prior to joining the company. He began his financial service's career at Merrill Lynch in 1982 and has since served in a wide range of leadership positions in Merrill Lynch's extensive domestic branch office system. He started as a financial advisor in New Jersey and in 1987 and in 1998 he was named a first vice president and director of mutual funds for the investment strategy and product group. In 1999, he became district director of the New York City District and in 2000 was appointed executive director of the Northeast regional advisory division. He is on the board of governors of Money Management Institute and a board member for the Forum for Investor Advice.

Jude T Driscoll

Board: Senior Management

Job Title: President and Chief Executive Officer, Lincoln National Investment Companies & Delaware Investments

Since: 2003

Age: 41

Salary: \$442,635

Bonus: \$1,457,923

Total Annual Compensation: \$1,900,558

Mr Driscoll joined the firm in 2000 as executive vice president and head of fixed income. He was appointed president and chief executive officer in 2003 after serving as an interim chief executive officer since 2002. Prior to joining Delaware Investments in 2000, he was senior vice president of the fixed income group and director of investment processes at Conseco Capital Management from 1998 to 2000. He was previously a managing director of NationsBanc Montgomery Securities from 1996 to 1998 and was head of utility trading for Goldman Sachs from 1991 to 1996. His first tenure at Conseco began in 1989, when he served as vice president, portfolio manager.

Jason S Glazier

Board: Senior Management

Job Title: Senior Vice President, Chief Technology Officer and Chief E-Commerce Officer, Lincoln Financial Group

Age: 36

Dr Glazier was previously with Merrill Lynch US Private Client Group, where he served as chief technology officer. Prior to the sale of his D.E. Shaw & Co division to Merrill Lynch, he was a division president.

John H Gotta

Board: Senior Management

Job Title: Chief Executive Officer, Lincoln Life & Annuity businesses and Executive Vice President, The Lincoln National Life Insurance Company

Since: 1999

Age: 53

Salary: \$504,807

Bonus: \$1,413,604

Total Annual Compensation: \$1,918,411

Mr Gotta is the president of First Penn-Pacific Life Insurance Company and the president of the Lincoln Life and Annuity Company. He joined the company as senior vice president and general manager of the life manufacturing operation at the time of the acquisition of CIGNA's individual insurance division in 1998. He was appointed CEO of Life Insurance in 1999. Prior to joining Lincoln, he was senior vice president of client and producer services for CIGNA Individual Insurance. He is currently president of Riverfront Recapture's board of directors. He is on the board of the Connecticut Business & Industry Association (CBIA) and is a past board member of the Greater Hartford Arts Council.

Barbara S Kowalczyk

Board: Senior Management

Job Title: Senior Vice President and Director of Corporate Development,

Since: 1994

Age: 52

Ms Kowalczyk joined Lincoln National Investment Management in 1977. She became senior vice president of private placements in 1992 and was promoted to her current

position in 1994. She is a member of the LNC executive steering committee and senior management committee. She currently serves on the board of directors for Lincoln National Multi-Fund, Lincoln Life & Annuity Company of New York and Lincoln National (UK).

Dennis L Schoff

Board: Senior Management

Job Title: Senior Vice President and General Counsel, Lincoln Financial Group

Age: 44

Mr Schoff also serves on the senior management committee and is a member of the corporate conflicts of interest committee. He joined Lincoln in 1990 in the investment section of the law division. In 2001, he was promoted to deputy general counsel. Prior to Lincoln, he was in private practice with the law firm Taft, Stettinius & Hollister in Cincinnati focusing in the business and finance department.

Michael Tallett-Williams

Board: Senior Management

Job Title: Chairman and Managing Director, Lincoln UK

Since: 2000

Age: 50

Mr Tallett-Williams joined Lincoln in 1995 as chief financial officer when Lincoln acquired the Laurentian Financial Group in the UK. In Lincoln, he subsequently became responsible for the investment function before being appointed to his current role in 2000. Before joining Lincoln, Tallett-Williams had been at Laurentian since 1987 in various finance roles before being promoted to chief financial officer of the Life Assurance Company and later of the UK group. He had previously worked for Abbey Life and Canada Life in the UK in finance roles with particular emphasis on investment and system accounting.

Westley V Thompson

Board: Senior Management

Job Title: President and Chief Executive Officer, Lincoln Financial Distributors

Age: 48

Salary: \$325,000

Bonus: \$1,000,000

Total Annual Compensation: \$1,325,000

Mr Thompson has over 20 years experience in the financial services industry. He started his career at Aetna in 1979 as an executive management intern. He went on to a series of increasingly responsible assignments in Aetna's personal financial security division culminating as vice president of Aetna sales centers. In 1994, he joined CIGNA to start up and build an independent brokerage distribution capability for CIGNA's individual insurance division. He joined Lincoln Financial Group in 1998, through the company's acquisition of CIGNA individual insurance, and served as the senior vice president of Lincoln Life Distributors, prior to his current responsibilities.

Richard C Vaughan

Board: Senior Management

Job Title: Executive Vice President and Chief Financial Officer, Lincoln Financial Group

Since: 1992

Age: 54

Salary: \$515,000

Bonus: \$1,545,116

Total Annual Compensation: \$2,060,116

Mr Vaughan joined Lincoln in 1990, as senior vice president and chief financial officer of Lincoln National's employee benefits division. In 1992, he was appointed to chief financial officer for the corporation. He was promoted to executive vice president in 1995. He was previously employed with EQUICOR from 1988 to 1990, where he served as a vice president in charge of public offerings and insurance accounting. Prior to that, he was a partner at KPMG Peat Marwick, St. Louis, from 1971 to 1988 responsible for insurance, defense contracting, government and health care practices. He serves on the following boards and committees: the board of directors of Oxford Health Plans, Oxford's audit and corporate governance committees, chairman of the Philadelphia Museum of Art's corporate executive board, chairman of the board of the YMCA of Philadelphia and Vicinity, Moody's Financial Institutions CFO Council and Standard & Poor's Insurance Ratings CFO Roundtable.

MAJOR PRODUCTS AND SERVICES

The company's products and services are categorized under the following different segment divisions:

Lincoln retirement:

Fixed annuity
Variable annuity

Life insurance:

Fixed life insurance
Variable universal life insurance
Corporate owned life insurance
Term life insurance

Investment management:

Mutual funds
Separate accounts
Institutional mutual funds
Managed accounts
College savings plans
Retirement plans and services
Administration services

Lincoln UK:

Unit-linked life and pension products

PRODUCTS AND SERVICES ANALYSIS

LNC recorded revenues of \$5283.9 million during the fiscal year ended December 2003, an increase of 14% over fiscal 2002. The increase was primarily due to the growth in equity markets.

The group generates revenues through its different business divisions including Lincoln retirement (36.3% of total revenues during fiscal 2003), life insurance (33.6%), investment management (8.4%), Lincoln UK (4.8%) and other operations (16.9%).

Revenues by Division

During the fiscal year 2003, Lincoln retirement recorded revenues of \$2054.8 million, an increase of 14.9% over fiscal 2002.

During the fiscal year 2003, life insurance recorded revenues of \$1905.5 million, an increase of 6.8% over fiscal 2002.

During the fiscal year 2003, investment management recorded revenues of \$474.4 million, an increase of 14.8% over fiscal 2002.

During the fiscal year 2003, Lincoln UK recorded revenues of \$273.4 million, a decrease of 1.4% over fiscal 2002.

During the fiscal year 2003, other operations recorded revenues of \$959.8 million, an increase of 35.1% over fiscal 2002.

SWOT ANALYSIS

LNC is a holding company which operates insurance and investment management businesses through subsidiary companies. The company is focused at creating a strong brand name but faces the threat of a continued low interest regime.

Strengths	Weaknesses
Market leading positions	Weakness of the annuity business
Focus on branding	Sensitivity to equity markets
Quality distribution system	Weak operating performance
Opportunities	Threats
Recovery in equity markets	Low interest rates
New product offerings	Pricing pressures
Strong growth in institutional annuities	Dispute with UK legislators
Growth in retirement business	Estate tax regulation
	Intense competition in US life insurance

Strengths

Market leading positions

LNC is a leader in both individual and employer-sponsored annuity markets. The company ranks 5th in assets and 11th in variable annuity sales (as of 2003) in the US. Based on assets, it is the 44th largest US corporation and the 8th largest US stockholder-owned company based on revenues. LNC is among the 10 largest life insurers in the US and is a leading provider of life insurance products designed specifically for the high net-worth and affluent markets.

Focus on branding

Branding is a key element of LNC's strategy. LNC's branding efforts are focused on two primary target audiences -financial intermediaries and very affluent consumers (top 11% of the population). On the consumer side, LNC's total company awareness has increased from 22% in 1998 to 39% in 2003. On the trade side, company awareness is very strong at 96%.

In 2002, the company announced a significant new partnership with the Philadelphia Eagles football team to name its new state-of-the-art stadium Lincoln Financial Field. The official opening of the field was in September 2003 with the first Monday Night Football game of the 2003 NFL (National Football League) season. In 2003, LNC continued to build its brand on a national basis through an integrated package of trade advertising, consumer print, television, internet advertising, public relations and promotional events.

Quality distribution system

LNC has a quality life insurance distribution system targeted at the affluent and high net worth markets, through both its internally owned distribution arms: LFA (Lincoln Financial Advisors), the retail distribution arm and LFD (Lincoln Financial Distributors), the wholesale arm. LFD has approximately 250 wholesalers, with access to 7500 insurance brokers, 14,000 bank agents, 50,000 stockbrokers, and 53,000 financial planners including LFA. In early 2003, LNC was selected as core carrier in the M Group, which has enormous distribution potential.

Weaknesses

Weakness of the annuity business

For the year 2003, the company's fixed annuity sales were \$861 million, a decrease of about 30% over the previous year. This segment is expected to remain weak not only due to market sensitivity but also due to excess capacity and aggressive competition for variable annuities.

Sensitivity to equity markets

About one-third of LNC's earnings are derived from free-based equity market products. This is an above average exposure to the equity markets. Though LNC's annuities, life insurance, money management and financial planning businesses benefited from the improving financial markets experienced during 2003, its high exposure makes it more vulnerable to the volatilities of the markets.

Weak operating performance

LNC has disposed of or is running off the businesses that have caused significant charges, such as reinsurance and its UK operations. The company's earning history has been consistently below average. LNC has had restructuring or other large one-time charges in each of the last five years. Revenues have been consistently declining

over the period 1999-2003 at a CAGR of 6.1%, excluding 2003 where the company recorded a growth over previous year.

Opportunities

Recovery in the equity markets

Equity markets in the US have been recovering. The life and health insurance companies would benefit from this recovery and would be reflected in strong sales of key players in the US market. The outlook of ratings agencies such as Moody's and Standard and Poor's towards the insurance industry has also been constructive. The recovery in equity markets should improve the returns on equity investments of insurance companies including LNC.

New product offerings

In 2003, LNC introduced 28 products in its life and annuity segment, including the highly popular Lincoln Principal Security(SM), which offers a guaranteed minimum withdrawal benefit on variable annuity products. LNC is introducing an entire suite of high-end life products in 2004. The company's new life products will be aimed at showcasing its expertise in the planning side of life insurance for affluent customers. The rollout of the new products is expected to hasten a shift in favor of higher-revenue product designs.

Strong growth in institutional annuities

There has been a strong growth in sales of institutional annuities. Companies such as Prudential and MetLife offering institutional annuities have also reported growth in year 2003. The growth was driven by the rising equity markets and strong deposits growth. The increase in sales of institutional annuities is a strong opportunity for LNC.

Growth in retirement business

LNC expects a huge opportunity within the retirement income stage of the consumer cycle. While there are plenty of companies that can help a client accumulate their assets or even transfer those assets, there exists an unmet need of clients who are retiring and need income. As the largest generation of baby boomers prepares to retire, LNC's technical expertise positions it to offer the right solutions including, comprehensive planning and reporting, products that deliver accumulation, retirement income and wealth transfer. LNC's retirement business is expected to contribute to about 46% of the total earnings in 2004.

Threats

Low interest rates

Historically low interest rates continue to create a challenge for LNC's products which generate investment spread profits (fixed annuities, universal life insurance). Low interest rates lower portfolio earnings. The current money rates are approximately 150 basis points below existing portfolio yields. The company's life insurance segment may need to lower crediting rates to reduce the impact on interest rate margins. However, with 25% of fixed accounts already at their minimum guaranteed interest rates, LNC's ability to lower crediting rates is limited. Until the interest rates rise, the pressure on the fixed annuities business will continue.

Pricing pressures

In the life insurance segment, there was substantial pricing pressure in 2003, particularly with respect to products with secondary guarantees. The segment uses reinsurance to manage mortality risk. There was also pricing pressure in 2003 in the reinsurance market. There are indications that the reinsurance market may experience further pricing pressures.

Dispute with UK legislators

The company risks potential charges for its UK operations. As of March 2003, LNC held a \$97.5 million liability associated with UK selling practices litigation. The company continues to vigorously defend itself in a dispute with UK regulators over alleged misselling of mortgage endowment policies and admits there is considerable uncertainty over the final outcome.

Estate tax regulation

High net worth individuals often purchase life insurance to minimize estate taxes. Like other insurers, LNC's life insurance sales may be negatively impacted by the potential modification/repeal of estate taxes. About 25% of its sales are concentrated in second to-die life insurance products, which would be most at risk in the event of a change of regulation.

Intense competition in US life-insurance

All businesses LNC is involved in are highly competitive due to the market structure and the large number of competitors. At the end of 2002, there were approximately 1171 life insurance companies in the US. Also, many of the products offered by LNC's

operating companies are similar to products offered by non-insurance financial services companies, such as banks.

TOP COMPETITORS

The following companies are the major competitors of Lincoln National Corporation:

American International Group, Inc.
Berkshire Hathaway, Inc.
ING Groep N.V.
Jefferson-Pilot Corporation
Massachusetts Mutual Life Insurance Company
New York Life Insurance Company
SAFECO Corporation
Prudential Financial
Allstate Corporation
Northwestern Mutual
The Phoenix Companies
Universal American Financial Corp.
AEGON N.V.
AXA Financial, Inc.
Pacific Mutual Holding Company
Torchmark Corporation
MONY Group Inc.
Guardian Life Ins. Co. of America
Hartford Financial Services Group
Manulife Financial Corporation

COMPANY VIEW

A statement by Jon A Boscia, chairman and chief executive officer of Lincoln National Corporation is given below. The statement has been taken from the company's 2003 annual report.

Over the past two years we've faced one of the most challenging environments the financial services sector has experienced including volatility in the equity markets, interest rates at historical lows, industry-changing laws and regulations and questions surrounding the very integrity of the companies and markets.

Within this environment, Lincoln's guiding philosophy has consistently been to manage those things we can control that will ultimately drive value in the long term things like higher net client cash flows, buyer-driven product features and good investment performance. Underlying these drivers are those attributes that form the foundation of our business model careful expense management, maintaining our strong capital position and absolute clarity on what constitutes both ethical and appropriate behavior as stewards of client assets.

In addition to our intense focus on these areas, we've also had much more positive news in the equity markets of late, which has resulted in the recent positive returns in the S&P 500 index. As the public's confidence in the health of the economy continues to grow, so does their appetite to borrow money at low interest rates, which in turn sparks economic activity. Moreover, in this environment investors are looking to get back into the equity markets and, as they do, we believe there are several compelling reasons why Lincoln provides good investment opportunities.

A Demographic Tailwind

We have worked day in and day out to deliver results, while also keeping our sights on the importance of positioning Lincoln for the future. The demographics of this country are a critical and very exciting component of our future. Simply stated, we are positioning Lincoln to capitalize on what I believe is the greatest marketplace opportunity the insurance and financial services industry may ever see. As baby boomers come of retirement age, we are facing a unique shift, which is changing the way we do business in this industry.

Those companies that effectively coordinate delivery of annuities, life insurance, money management and financial planning into a clear solution can capitalize on the

shifting demographic trends and will be the ones that ultimately gain market share in the future.

From our perspective, the greatest opportunity lies within the retirement income stage of the consumer cycle. And, while there are plenty of companies that can help a client accumulate their assets or even transfer those assets, as an industry we have not met the needs of those clients who are retiring and need income.

As the largest generation prepares to retire, it is the insurance industry's franchise right in conjunction with Lincoln's technical expertise that uniquely positions us to offer the right solutions whether that be comprehensive planning and reporting, or products that deliver accumulation, retirement income and wealth transfer, or combinations of these.

The Drivers

Within this context, at Lincoln we've identified three key drivers for our business product excellence, distribution reach and the power of the brand.

Our first driver, product excellence, focuses on developing products within our businesses that will continue to deliver profitable growth in the long run.

During 2003, our product strength contributed to positive net flows in all of our business lines. In our life and annuity segment, we introduced 28 products during the year, including the now popular Lincoln Principal Security(SM), which offers a guaranteed minimum withdrawal benefit on our variable annuity products.

With respect to Delaware, the organization received recognition in Barron's winner circle of outstanding family of funds, placing the fourth-best out of 75 mutual fund families in 2003. This type of honor typifies the strong investment performance of our asset management organization, further supporting our belief that assets under management as well as this segment's contribution to earnings will continue to grow over time.

While product excellence has always been a priority at Lincoln, we realigned our life and annuity product platforms and are implementing a new operations model at Delaware. Going forward, we are confident that changes such as these within all three manufacturers will enhance overall product performance within the enterprise. As we move through 2004, we are well positioned to continue developing and managing leading edge products built on a foundation of strong awareness of buyer behavior and excellent risk assessment capabilities.

Distribution reach, our second driver, is reflected in our retail distribution arm, Lincoln Financial Advisors (LFA), and our wholesale distribution arm, Lincoln Financial Distributors (LFD).

At LFA, our newly instituted Consistency of Excellence program has led the way in providing clients with superior planners who can seamlessly access talent and information from fellow planners and specialists across the country. These strategic and structural changes will create a more effective, flexible and scaleable platform for long-term success.

LFD has developed into a second-to-none distribution system with significant shelf space presence and expansion in each of its key intermediary channels. We continue to implement the "inch wide, mile deep" philosophy with intermediaries allowing us to get closer to our customers and better understand their needs.

In addition, we recently consolidated enterprise marketing within LFD, which will not only provide a consistent Lincoln experience to intermediaries and their clients, but will bolster our ability to present clear solutions for every consumer product cycle stage. These changes enabled us to make great strides in wholesaler effectiveness in 2003, but we're not yet done. We are committed to distribution expansion in 2004 and to sustain sales growth at levels above industry averages.

We look at our third driver, the power of brand, through the trifocal lens of demonstrating and communicating Lincoln values, increasing broad corporate awareness and intermediary acceptance of the name. Our goal in branding is to aid our planners and intermediaries with a company name that people will recognize and trust, resulting in an increase in sales. At Lincoln, we are uniquely positioned as our brand ties directly to the distinguished reputation of Abraham Lincoln.

Our company's proclamation of shared values guides our employees in day-to-day business, and importantly, correlates with the ethical values of our affluent consumer target market. Our name indicates our character and by setting forth the shared values of integrity, commitment to excellence, responsibility, respect, fairness, diversity and employee ownership; our customers can be assured of our powerful promise to provide clear solutions as consumers move through changing life cycles.

We remain committed to building our brand, and during the year continued to do so through a combination of advertising, sponsorships and general reputation building activities. As you know, we entered into a partnership with the Philadelphia Eagles in June 2002 to expand awareness of our brand. And in 2003, Lincoln Financial FieldSM, the home of the Eagles, had its inaugural season, which resulted in our

name being displayed over 900 million times through various forms of media including advertising, featured articles and other mentions.

In addition to the three drivers we've identified product excellence, distribution reach and the power of the brand Lincoln is well positioned to benefit from improved environmental conditions things like positive equity markets, strong consumer confidence and low inflation. These are obviously not levers within our control but we can and do plan for swings in these areas.

Our Goal

At the end of the day, all of our efforts are centered on a simple goal to be the partner of choice for those organizations that help their clients grow, guard and enjoy their wealth. It is precisely this intent that stands at the foundation of all that we do, and I'm proud of all the Lincoln employees who weathered the past several challenging years while staying focused on this singular purpose. In 2004, we will bring the same energy level, creativity and savvy while hopefully benefiting from smoother markets, a strengthening economy and less world turmoil.

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