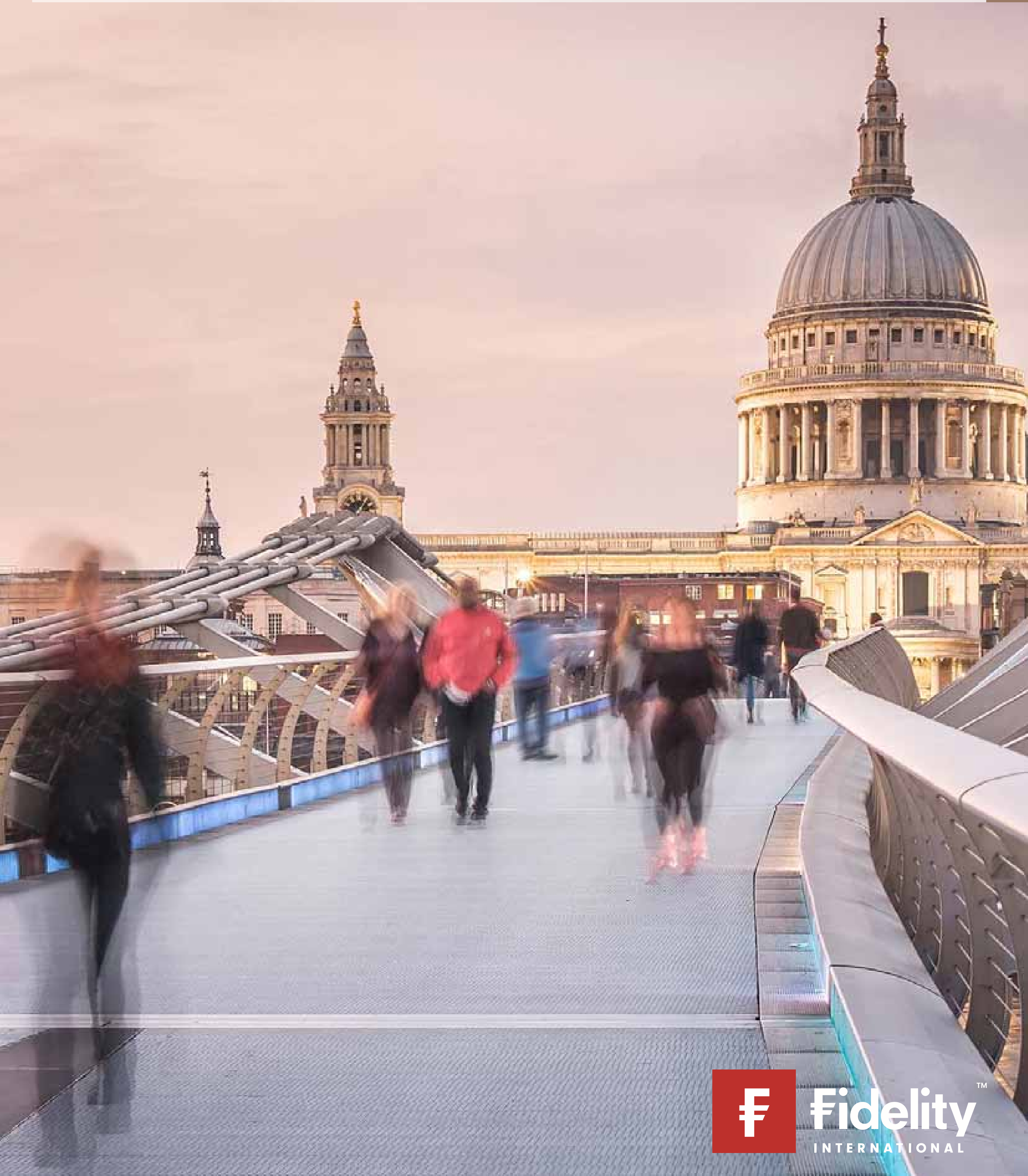
Fidelity Special Values PLC

Annual Report For the year ended 31 August 2017



Fidelity INTERNATIONAL

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The Portfolio Manager, Alex Wright's, approach is very much in keeping with Fidelity Special Values' heritage and history – that of value contrarian investing, looking for companies whose potential for share price growth or recovery has been overlooked by the market. Alex then holds these companies until their potential value is recognised by the wider market. He only invests in companies where he understands the potential downside risk to limit the possibility of losses.

We believe the Company is well positioned as the investment of choice for those seeking exposure to UK listed companies but with the benefit of investing up to 20% of the portfolio in listed companies on overseas exchanges in order to enhance Shareholder returns."

Andy Irvine, Chairman

INVESTING IN COMPANIES WITH UNRECOGNISED POTENTIAL

LET'S TALK HOW.

Investment Objective and Financial Highlights

The investment objective of Fidelity Special Values PLC is to achieve long term capital growth predominantly through investment in UK listed companies.

Year to 31 August 2017

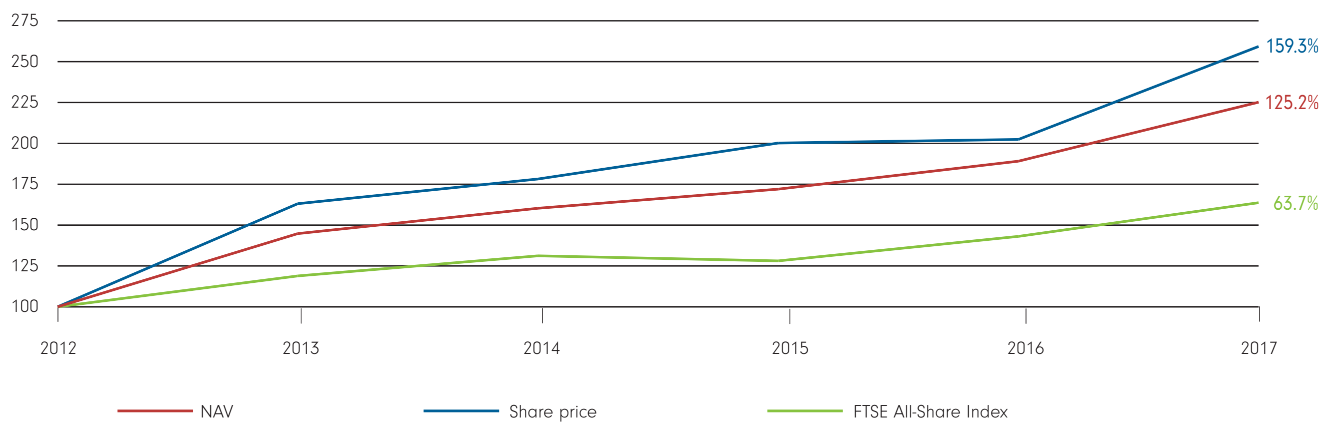
Net Asset Value ("NAV") per Share total return*	Share Price total return*	FTSE All-Share Index (Benchmark Index)	Total Dividends
+19.1%	**+28.1%**	**+14.3%**	**4.60p**
2016: +9.9%	2016: +1.1%	2016: +11.7%	2016: 3.70p

* Includes reinvested income.

	2017	2016
Assets at 31 August		
Shareholders' funds	**£673.5m**	£578.3m
Net Asset Value ("NAV") per share	**254.63p**	217.94p
Dividends for the year to 31 August		
Final dividend proposed per ordinary share	**2.80p**	2.70p
Interim dividend paid per ordinary share	**1.80p**	1.00p
Total dividends for the year	**4.60p**	3.70p
Share price and discount data for the year ended 31 August		
Share price at the year end	**246.50p**	196.25p
Share price year high	**250.00p**	203.00p
Share price year low	**195.00p**	170.00p
Discount at year end	**(3.2%)**	(10.0%)
(Discount year low)/Premium year high	**(0.4%)**	1.3%
Discount year high	**(12.7%)**	(13.3%)
Ongoing charges for the year ended 31 August**	**1.06%**	1.10%

** Ongoing charges (excluding finance costs and taxation) expressed as a percentage of the average net asset values for the year (prepared in accordance with methodology recommended by the Association of Investment Companies). A definition of ongoing charges is in the Glossary of Terms on page 72.

Comparison of NAV and Share Price Total Returns against the Benchmark Index for the 5 year period to 31 August 2017



Prices rebased to 100
Sources: Fidelity and Datastream
Past performance is not a guide to future returns

STRATEGY GOVERNANCE FINANCIAL INFORMATION FOR SHAREHOLDERS

Chairman's Statement

I have pleasure in presenting the Annual Report of Fidelity Special Values PLC for the year ended 31 August 2017.

Andy Irvine, Chairman

Fidelity Special Values PLC aims to achieve long term capital growth for Shareholders. It is an actively managed contrarian Investment Trust that seeks out undervalued opportunities and thrives on volatility and uncertainty.

The Portfolio Manager, Alex Wright's, approach is very much in keeping with Fidelity Special Values' heritage and history - that of value contrarian investing, looking for companies whose potential for share price growth or recovery has been overlooked by the market. Alex then holds these companies until their potential value is recognised by the wider market. He only invests in companies where he understands the potential downside risk to limit the possibility of losses.

The Company's structure allows investment right across the market, in terms of the size (market capitalisation) of underlying investments, although there is an inherent bias towards small and medium companies. We believe the Company is well positioned as the investment of choice for those seeking exposure to UK listed companies but with the benefit of investing up to 20% of the portfolio in listed companies on overseas exchanges in order to enhance Shareholder returns.

Performance

The net asset value ("NAV") of the Company increased by 19.1% over the year and the share price by 28.1%, both well above the 14.3% return of the Benchmark Index (all returns on a total return basis). As a result of the performance of the share price, the Company's discount narrowed from 10.0% at the start of the reporting year to 3.2% at the end of the year.

This financial year marked the fifth anniversary of Alex Wright's tenure as Portfolio Manager. The NAV of the Company increased in absolute terms during this period at an average rate of 17.6% per annum, well ahead of an annualised Index return of 10.4%. The share price returned 21.0% per annum. In total over Alex's five years, the NAV and share price returns were an impressive 125.2% and 159.3% respectively compared to the Index return of 63.7%. I would like to congratulate Alex on this performance on behalf of our Shareholders.

As we have seen before, Alex's commendable stock selection abilities, particularly in financials, was the primary factor behind the outperformance against the Index over the year under review. The so-called 'reflation trade' following Donald Trump's election as US President, which saw an increased investor focus on the more cyclical areas of the market, especially financials, provided a very supportive backdrop. It is noteworthy that Alex's steadfast focus on his investment thesis in many of these stocks generated a strong contribution over the review period (see Portfolio Manager's Review for further details). A weakening economic outlook, geopolitical tensions and rhetoric has stayed with us through the period, but our contrarian approach and focus on fundamental research has proved beneficial to the Company in these times of uncertainty.

The contrarian nature of the Company's investment selection means that the Board does not expect a consistent outperformance of the Index every single year, though we do believe that the portfolio has the potential to outperform significantly over the longer term. As ever, the Board encourages Shareholders to take a similarly long term view of their investment in the Company.

Outlook

Since the time of our last annual review, the outlook for GDP growth has weakened. Economic activity remains sluggish in the near term as the squeeze on households' real income continues to weigh on consumption. The strong run in markets seen over the last year has also left valuations above their historical averages in some areas. In this environment, a more discriminating approach will be required to separate the best opportunities from those that could disappoint. We will continue to focus on strong stock picking and risk management to ensure a positive relative performance of the Company's NAV. We feel that the strategy in place is well aligned with the long term interests of the Company's Shareholders.

OTHER MATTERS

Discount, Share Repurchases and Issues

Under the Company's discount management policy, the Board seeks to maintain the discount in single digits in normal market conditions and will repurchase ordinary shares to help stabilise the share price discount.

The level of discount has narrowed from 10.0% at the start of the reporting year to 3.2% as at 31 August 2017. This narrowing of discount gave rise to a share price total return of 28.1% for the year, well ahead of the NAV total return of 19.1%. The Board continues to monitor the discount closely and will take action when it feels it will be effective.

During the reporting year, the Company's shares traded within a discount range of 0.4% to 12.7% and the Company repurchased 850,000 ordinary shares into Treasury. Since the year end and as at the date of this report, the Company has not repurchased any further shares.

Gearing

The Board has agreed with the Portfolio Manager that if he is able to find attractive opportunities in the market, then the Company's gearing should be allowed to rise, and stay geared, as long as the opportunities remain. Combined with Alex's contrarian and value-focused investment philosophy, and making good use of the Company's structural advantages over its open-ended counterparts, this should continue to add value for Shareholders over the long term.

Following a strong period of performance for both the Company and the market, the Portfolio Manager has recently been selling down some of the large winners in the portfolio, as valuations on these stocks now look in-line with fair value. This has reduced the Company's net gearing to a lower than normal level. Net gearing (defined in the Glossary of Terms on page 71) was 0.9% as at 31 August 2017 (2016: 7.9%).

Dividend

The Board's dividend policy is to pay dividends twice yearly in order to smooth the dividend payment for the year. The Board believes that Shareholders would prefer a more balanced interim and final dividend than those previously paid. Therefore, an interim dividend of 1.80 pence per share (2016: 1.00 pence) was paid on 8 June 2017 which represents an increase of 80% over the previous interim dividend payment.

The Board recommends a final dividend of 2.80 pence per share for the year ended 31 August 2017 (2016: 2.70 pence) for approval by Shareholders at the AGM on 11 December 2017. The interim and final dividends (total of 4.60 pence) represent a total increase of 24.3% over the 3.70 pence paid for the year ended 31 August 2016. This dividend will be payable on 9 January 2018 to Shareholders on the register at close of business on 8 December 2017 (ex-dividend date 7 December 2017).

As reported in the Half-Yearly Report for the six months ended 28 February 2017, a high percentage of our Shareholders reinvest their dividends for additional shares in the Company. In prior years, the final dividend has been paid in December and it has sometimes been difficult to find sufficient shares in the market to meet the required demand for the dividend reinvestments. The market is not as active in the second half of December (post the Company's Annual General Meeting ("AGM") when the proposed dividend is approved for payment by Shareholders) and leading up to the Christmas and New Year holiday period. Therefore, the Board has decided to change the payment date of the final dividend from December to January.

Shareholders may choose to reinvest their dividends to purchase more shares in the Company. Details of the Dividend Reinvestment Plan are set out on page 68.

Board of Directors

Nicky McCabe will retire from Fidelity and also from her role as Fidelity's Head of Investment Trusts at the end of December 2017 but I am delighted that she has agreed to remain on our Board as a Non-Executive Director. She will remain non-independent due to her past employment relationship with the Manager and also because of her tenure on the Board. However, your Board is keen to retain her vast knowledge of the Company and the investment trust industry. Along with all of the other Directors, Nicky will be subject to annual re-election at the forthcoming AGM. Biographical details for all the Directors can be found on page 23 to assist Shareholders when considering their votes. Between them, they have a wide range of appropriate skills and experience to form a balanced Board for the Company.

Annual General Meeting

The AGM of the Company will be held at 11.30 am on Monday 11 December 2017 at Fidelity's offices at **25 Cannon Street, London EC4M 5TA** (nearest tube stations are St. Paul's or Mansion House). Full details of the meeting are given on pages 65 to 67.

It is the most important meeting that we, the Directors of your Company, have with our Shareholders each year. Alex Wright, the Portfolio Manager, will be making a presentation to Shareholders, highlighting the achievements and challenges of the year past and the prospects for the year to come. We hope as many of you as possible are able to come and join us for this occasion.

Andy Irvine
Chairman
1 November 2017

Portfolio Manager's Review

Alex Wright was appointed as Portfolio Manager of Fidelity Special Values PLC on 1 September 2012. He joined Fidelity in 2001 as a research analyst and covered a number of sectors across the market cap spectrum both in the UK as well as developed and emerging Europe. He is also Portfolio Manager of Fidelity Special Situations Fund and the co-Manager of Fidelity UK Smaller Companies Fund.

Introduction

The Company's NAV return of 19.1% and share price return of 28.1% for the year was well above the Benchmark Index which returned 14.3% (all returns on a total return basis). The UK stock market performed favourably during the reporting period as a strong rally in global shares in the second half of 2016 and early 2017 led UK equities upwards, while a weak sterling exchange rate provided a benefit for many of the large international companies listed in London.

In my report, I will explore some of the main influences on the Company's performance and some of the significant changes in the portfolio over the last financial year.

UK Market and Economic Review

- The strong rally in cyclical shares post Donald Trump's victory in the US presidential election was a key driver of stock prices, in the final months of 2016 although this optimism has now faded to some degree.
- A weaker sterling related to the ongoing uncertainty around Brexit negotiations, also supported those companies with large foreign sales exposures.
- The UK economy has continued to advance, with GDP growing by 0.3% in the three months to the end of June 2017. However, there had been a notable slowdown from last year and new economic forecasts released by the Bank of England ("BoE") lowered the outlook for GDP growth for this year and next year.
- The fall in sterling has continued to put upward pressure on inflation, with the Consumer Price Index at 2.9% as at August 2017. The BoE expects inflation to rise further in the coming months as the past depreciation of sterling continues to pass through to consumer prices, although it is expected to come down towards the end of this year.

Stocks started the review period on a strong note, as contrary to expectations, the UK economy remained resilient which helped to ease concerns over the economic implications of the Brexit vote in June 2016. Trump's victory in November 2016 had broad implications for market leadership, reversing some of the outperformance of 'bond proxies' earlier in the year in favour of more cyclical areas. The momentum seen towards cyclical shares accelerated and broadened out following the US elections. The strengthening US economy, leading to an increase in interest rates in December 2016 further supported investor sentiment.

Politics and Brexit continued to make background noise, although the market seems to have priced in the implications. The outcome of the snap general election earlier this year has led to greater uncertainty about the composition of the political leadership of the country, but it is also fair to question how much this really matters to investors. The fact that we have not seen any major repositioning of portfolios, and only a modest price response, suggests that further political uncertainty was already reflected in prices and that investors' expectations have not materially changed.

Overall, the very strong performance of cyclical shares in the second half of 2016 and in the early months of 2017 had led to concerns about stretched valuations and market trends afterwards showed that the 'reflation trade' that drove the share prices were corrected. This has created a more balanced environment for stock pickers in recent months. Given this backdrop, more discernment will be required to separate the best opportunities from those that could disappoint.

Portfolio Review

We have had some very strong contributions from stock selection which has allowed us to deliver another year of strong absolute returns which were well above the overall market. This was especially true of our positions in the financial sector, with key contributors including Burford Capital, Citigroup and esure Group. Litigation finance company Burford Capital was a top contributor at a stock level. Burford is an early mover and global leader in a new and fragmented industry. As a fully integrated company, with legal expertise and due diligence in house as well as a good brand, Burford is in the best position to benefit from an increase in penetration of litigation financing. US banking major Citigroup was another key contributor to returns as the increase in US interest rates and expectations that banks could benefit from potentially lower taxes and a friendlier regulatory environment under Trump supported banking shares. Following the completion of the US Federal Reserve's latest stress test (in June 2016), Citigroup has now gained approval to significantly increase capital returns to shareholders over the next year. The company is over-capitalised, with a core tier 1 ratio of 13% – the highest of any major US bank. Citigroup stands out globally as a very attractively valued stock in a strong end-market with considerable balance-sheet optionality. Car insurer esure's profits beat consensus expectations as it was able to raise prices and take advantage of its high solvency ratio to pay a larger dividend than expected. The holding in Coats Group, a maker of threads and zips, rose as it announced plans to inject £255 million into its pension schemes to settle a regulatory dispute. The settlement is expected to allow the company to lift a suspension on dividend payments.

Merger and acquisition activity remained a key driver of portfolio returns. For example, the holding in Indonesian palm oil plantation owner M.P. Evans rose after Kuala Lumpur Kepong made a takeover offer for the company.

On the downside, the underweight stance in the resources sector, particularly mining, proved a drag on overall performance. The demand improvement in the mining sector is being driven primarily by Chinese stimulus, the economic value of which is questionable and it is unlikely to last forever. With no meaningful supply-side adjustment taking place in key industrial metal markets, there is a real risk of significant disappointment if a withdrawal of Chinese stimulus packages causes a fall in spot prices. As such, for the time being, I largely continue to avoid the sector.

Ladbrokes Coral was a notable detractor at a stock level. Ladbrokes is a complex investment case for what is essentially a mid-cap leisure and retail stock and the industry is facing a regulatory enquiry. However, following the acquisition of Coral, Ladbrokes' online platform is making good progress after several false starts, and profit margins should improve considerably over time, as significant cost savings are possible. At current valuations, Ladbrokes is one of the cheapest and most unloved stocks in the portfolio, and has one of the most attractive risk/reward payoffs.

Financials remain the largest absolute sector weighting in the Company. The allocation to banks has risen with the addition of two new ideas, both making their debut in the portfolio under my tenure. Allied Irish Bank has a substantial market share in the Republic of Ireland, an economy which has seen a strong recovery and could outperform other European economies in the years to come. The bank also has a low quality loan book, which makes the market wary of the company, and undoubtedly makes it more exposed to the macroeconomic situation in Ireland. However, the bank is extremely well capitalised, which gives it a good deal of protection against further write-downs. If its management is able to continue reducing the bank's exposure to bad loans, it will free up large amounts of capital for distribution to shareholders. The other new position in the banking sector is Royal Bank of Scotland. Up until now we have avoided this bank in preference of others where the recovery is more advanced. However, an attractive balance of risk and reward is now emerging. We have also partially rotated out of the oil sector. We now expect that an increase in shale production could lead to short term oversupply in the market and potentially some medium term downside in the oil price from current levels. The upshot of this, as far as the portfolio is concerned, is a reduced weighting in the sector, down to about 6% from around 8% over the review period.

We still see a good supply of attractive investment opportunities in diverse sectors such as financial services and industrials, but as ever, remain focussed primarily on analysing individual companies. This helps us to improve focus on those elements that have the greatest impact on long term share price returns, and reduce the temptation to become distracted by short term factors such as political rhetoric or economic uncertainty.

Outlook

A strong run in the market over the last twelve months and indeed over the longer term has left valuations above historical averages in some areas, and sentiment relatively elevated. While this need not be a cause for immediate concern, we believe it constrains the ability of the overall market to continue making above average returns in the future, and makes it more vulnerable to a shock. However, a selective approach, focussed on identifying cheap companies with improving fundamentals, should allow the Company a good chance of outperforming the market over the coming years.

Alex Wright
Portfolio Manager
1 November 2017

Strategic Report

The Directors have pleasure in presenting the Strategic Report of the Company. The Chairman's Statement and the Portfolio Manager's Review on pages 2 to 5 form part of the Strategic Report.

Business and Status

The Company carries on business as an investment company and has been accepted as an approved investment trust by HM Revenue & Customs under Sections 1158 and 1159 of the Corporation Tax Act 2010, subject to the Company continuing to meet eligibility conditions. The Directors are of the opinion that the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval.

The Company is registered as an investment company under Section 833 of the Companies Act 2006 and its ordinary shares are listed and traded on the London Stock Exchange. It is not a close company and has no employees.

Objective

The Company's objective is to achieve long term capital growth predominantly through investment in UK listed companies.

Strategy

In order to achieve this objective, the Company operates as an investment company and has an actively managed portfolio of special situation investments, consisting primarily of UK listed companies. As an investment company, it is able to gear the portfolio and the Board takes the view that long term returns for Shareholders can be enhanced by using gearing in a carefully considered and monitored way.

As part of the strategy, the Board has delegated the management of the portfolio and certain other services. The Portfolio Manager aims to achieve a total return on the Company's assets over the longer term in excess of the equivalent return on the FTSE All-Share Index, the Company's Benchmark Index. The stock selection approach adopted by the Portfolio Manager is considered to be well suited to achieving this objective.

The Company's objective, strategy and principal activity have remained unchanged throughout the year ended 31 August 2017.

Investment Policy

The Company seeks to meet its investment objective through investment in a diversified portfolio of securities and instruments issued by or related to predominantly UK listed companies.

The Portfolio Manager has a contrarian style which focuses on significant valuation anomalies in stocks which are out of favour with other investors, yet show potential for change. The Portfolio Manager believes these opportunities exist across the market capitalisation spectrum, and the investment approach is flexible, with positions in large, medium and smaller sized companies. The proportions in each size category may vary over time, as investment opportunities are selected on a bottom up basis.

Investments typically have the following characteristics:

- Unrecognised potential for positive change: The Portfolio Manager wants to see evidence of the company embarking upon a period of positive change. Once this change begins to be recognised by the market, there is potential for substantial upside.
- Limited downside risk: The Portfolio Manager invests in companies where market expectations are low. They will have some asset or characteristic that should prevent significant falls in the share price.

The Company may invest directly in the shares of companies or indirectly through equity-related instruments (such as derivative contracts, warrants or convertible bonds) and in debt instruments. The Company may also invest in unquoted securities, subject to the investment restrictions set out on page 7.

Derivatives

The Company may utilise derivative instruments, including index-linked notes, CFDs, covered options and other equity-related derivative instruments as a tool to meet the investment objectives of the Company.

Derivatives usage will focus on, but not be limited to the following investment strategies:

- As an alternative form of gearing to bank loans or bonds. The Company will purchase long CFDs that achieve an equivalent effect to bank gearing but normally at lower financing costs.
- To hedge equity market risks where the Portfolio Manager considers that suitable protection can be purchased to limit the downside of a falling market at a reasonable cost; and
- By taking short exposures on stocks that the Portfolio Manager considers to be over-valued.

The Company will not undertake any naked shorts.

Gearing

The Company may use gearing to enhance long term capital growth. The maximum level of gross gearing (defined in the Glossary of Terms on page 71) is 140%. Within this limit the Portfolio Manager has the discretion to use a range of instruments for gearing, such as debt and CFDs, depending on the relative cost and availability of those instruments. It is the current intention of the Board that, in normal market circumstances, the Portfolio Manager will maintain net gearing (defined in the Glossary of Terms on page 71) in the range of 100% to 120%. The level of gearing is considered by the Board at each of its meetings.

Currency

The Company does not carry out currency speculation. However, investments can be made in stocks in overseas currencies and as a sterling based fund, the Portfolio Manager can reduce currency exposure through the use of CFDs.

Investment Restrictions

The Company will invest and manage its assets with an objective of spreading risk through the following investment restrictions:

- No single investment (excluding cash and cash equivalents), nor the aggregate investment in any one company, shall represent more than 10% of the Company's portfolio, measured as at the time of investment;
- No more than 20% of the portfolio will be invested in companies listed on overseas exchanges;
- The Company will not invest more than 5% of its gross assets in unquoted securities; and
- The Company will not invest more than 15% of its gross assets at the time of investment in listed investment companies (including listed investment trusts), including no more than 10% at the time of investment, of its gross assets in funds that do not have stated policies to invest no more than 15% of their gross assets in other listed closed-ended investment funds.

Dividend Policy

The portfolio is managed actively in pursuit of capital growth. Hence, in any one year the dividend income received from investments will vary according to which stocks are owned during the reporting period and so will the dividend paid. In order to continue to qualify as an investment company, the Company is required by Section 1159 of the Corporation Tax Act 2010 to distribute sufficient net income so that it retains no more than 15% of its net income in any reporting year.

Investment Management Philosophy, Style and Focus

Fidelity's distinctive investment approach is "bottom up" stock picking – investing in companies on the basis of their underlying strengths, facilitated by extensive research capabilities. Fidelity's analysts evaluate companies, meet their management and workforce and interpret the effects of international and local events. This first hand research is fundamental to Fidelity's ability to seek the success stories of the future. The Portfolio Manager works closely with the Fidelity analyst team and also has access to a wide range of research produced by third parties.

Performance, Results and Dividends

The Company's performance for the year ended 31 August 2017, including a summary of the year's activities and indications of trends and factors that may impact the future performance of the Company are included in the Chairman's Statement and the Portfolio Manager's Review on pages 2 to 5. The Portfolio Listing, the Distribution of the Portfolio, the Ten Year Record, the Summary of Performance Charts and the Attribution Analysis are set out on pages 11 to 22. The Board recognises that investing in equities is a long term process and that the Company's returns will vary from year to year.

The Company's results for the year ended 31 August 2017 are set out in the Income Statement on page 43. The total return per ordinary share was 41.13 pence of which the revenue return was 5.33 pence.

The Directors recommend that a final dividend of 2.80 pence per ordinary share be paid on 9 January 2018 to Shareholders who appear on the register as at the close of business on 8 December 2017 (ex-dividend date 7 December 2017). This is in addition to the interim dividend of 1.80 pence paid on 8 June 2017.

Key Performance Indicators

The key performance indicators ("KPIs") used to determine the performance of the Company and which are comparable to those reported by other investment companies are set out below.

Shareholder Total Returns

Share price total return for the year ended 31 August	1 year (%)	3 years (%)	5 years (%)
Fidelity Special Values PLC[1]	+28.1	+45.6	+159.3
Low risk investment[2]	+0.3	+1.5	+2.5
Benchmark Index[3]	+14.3	+24.8	+63.7
Peer group[4]	+15.4	+26.1	+101.2

Company Total Returns

Net asset value total return for the year ended 31 August	1 year (%)	3 years (%)	5 years (%)
Fidelity Special Values PLC[1]	+19.1	+40.4	+125.2
Benchmark Index[3]	+14.3	+24.8	+63.7
Peer group[4]	+13.6	+25.8	+81.9

Discount

Discount as at 31 August	2017 (%)	2014 (%)	2012 (%)
Fidelity Special Values PLC	3.2	6.3	15.4
Peer group[4]	8.5	7.6	13.3

Ongoing charges

Ongoing charges for the year ended 31 August*	2017 (%)	2014 (%)	2012 (%)
Fidelity Special Values PLC	1.06	1.12	1.24

* Defined in the Glossary of Terms on page 72.
1 Total returns include reinvested income.
2 UK Interbank 3 month bid rate (banks or building societies).
3 FTSE All-Share Index.
4 AIC UK All Companies sector.

Sources: Fidelity and Datastream.

In addition to the KPIs set out above, the Board also monitors the factors contributing to investment results, as set out in the Attribution Analysis on page 22. Long term performance is also monitored and the Ten Year Record and Summary of Performance Charts showing this information are on pages 19 to 21.

Principal Risks and Uncertainties and Risk Management

As required by provision C.2.1 of the 2016 UK Corporate Governance Code, the Board has a robust ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the Company. The Board, with the assistance of the Alternative Investment Fund Manager (FIL Investment Services (UK) Limited/the "Manager"), has developed a risk matrix which, as part of the risk management and internal controls process, identifies the key risks that the Company faces. The risks identified are placed on the Company's risk matrix and graded appropriately. This process, together with the policies and procedures for the mitigation of risks, is updated and reviewed regularly in the form of comprehensive reports considered by the Audit Committee. The Board determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives.

The Manager also has responsibility for risk management for the Company. It works with the Board to identify and manage the principal risks and uncertainties and to ensure that the Board can continue to meet its UK corporate governance obligations.

The Board considers the following as the principal risks and uncertainties faced by the Company. There have been no changes to the prior year except for the addition of "cybercrime risk" as a separate risk as this is considered to be a significant threat.

EXTERNAL RISKS

Principal Risks	Description and Risk Mitigation
Market Risk	The Company's assets consist mainly of listed securities and the principal risks are therefore market related such as market downturn, interest rate movements and deflation/inflation. Risks to which the Company is exposed to in the market risk category are included in Note 17 to the Financial Statements on pages 56 to 61 together with summaries of the policies for managing these risks.
Share Price Risk	Share prices are volatile and volatility is a risk for the short term Shareholder likely to want to sell in the near future. The Board does not believe that volatility would be a significant risk for the long term Shareholder.
Discount Control Risk	The price of the Company's shares and its discount to NAV are factors which are not within the Company's total control. However, the Board can influence this through its share repurchase policy and through creating demand for shares through good performance and an active investor relations program. The Company's share price, NAV and discount volatility are monitored daily by the Manager and considered by the Board regularly.
Regulatory Risk	The Company may be impacted by changes in legislation, taxation or regulation. These are monitored at each Board meeting and managed through active lobbying by the Manager.
Cybercrime Risk	The risk posed by cybercrime is rated as significant and the Board receives regular updates from the Manager in respect of the type and possible scale of cyberattacks. The Manager's technology team has developed a number of initiatives and controls in order to provide enhanced mitigating protection to this ever increasing threat.

INTERNAL RISKS

Principal Risks	Description and Risk Mitigation
Investment Management Risk	The Board relies on the Portfolio Manager's skills and judgement to make investment decisions based on research and analysis of individual stocks and sectors. The Board reviews the performance of the asset value of the portfolio against the Company's Benchmark Index and its competitors and also considers the outlook for the market with the Portfolio Manager at each Board meeting. The emphasis is on long term investment performance as there is a risk for the Company of volatility of performance in the shorter term.
Operational Risks – Service Providers	The Company relies on a number of third party service providers, principally the Manager, Registrar, Custodian and Depositary. It is dependent on the effective operation of the Manager's control systems and those of its service providers with regard to the security of the Company's assets, dealing procedures, accounting records and the maintenance of regulatory and legal requirements. They are all subject to a risk-based program of internal audits by the Manager. In addition, service providers' own internal control reports are received by the Board on an annual basis and any concerns investigated. Risks associated with these services are generally rated as low, although the financial consequences could be serious, including reputational damage to the Company.

Continuation Vote

A continuation vote takes place every three years. There is a risk that Shareholders do not vote in favour of continuation during periods when performance of the Company's NAV and share price is poor. At the AGM held on 13 December 2016, 99.97% of shareholders voted in favour of the continuation of the Company. The next continuation vote will be at the AGM in 2019.

Viability Statement

In accordance with provision C.2.2 of the 2016 UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the twelve month period required by the "Going Concern" basis. The Company is an investment trust with the objective of achieving long term capital growth. The Board consider long term to be at least five years and accordingly, the Directors believe that five years is an appropriate investment horizon to assess the viability of the Company, although the life of the Company is not intended to be limited to this or any other period.

In making an assessment on the viability of the Company, the Board has considered the following:

- The ongoing relevance of the investment objective in prevailing market conditions;
- The principal risks and uncertainties facing the Company and their potential impact;
- The future demand for the Company's shares;
- The Company's share price discount to the NAV;
- The liquidity of the Company's portfolio;
- The level of income generated by the Company; and
- Future income and expenditure forecasts.

The Company's performance has been strong since launch. The Board regularly reviews the investment policy and considers it to be appropriate. The Board has concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years based on the following considerations:

- The Manager's compliance with the Company's investment objective, its investment strategy and asset allocation;
- The portfolio comprises sufficient readily realisable securities which can be sold to meet funding requirements if necessary;
- The Board's discount management policy; and
- The ongoing processes for monitoring operating costs and income which are considered to be reasonable in comparison to the Company's total assets.

In addition, the Directors' assessment of the Company's ability to operate in the foreseeable future is included in the Going Concern Statement in the Directors' Report on page 24. The Company is also subject to a continuation vote at the AGM in 2019. The Board has a reasonable expectation that the Company will continue in operation and meet its liabilities as they occur. It therefore expects that the vote, when due, will be approved.

Board Diversity

The Board carries out any candidate search against a set of objective criteria on the basis of merit, with due regard for the benefits of diversity on the Board, including gender. As at 31 August 2017, there were two female and three male Directors on the Board.

Employee, Social, Community And Human Rights Issues

The Company has no employees, all of its Directors are non-executive and its day-to-day activities are carried out by third parties. There are therefore no disclosures to make in respect of employees.

Fidelity encourages Environmental, Social and Governance ("ESG") factors in its investment decision making process. It has been a signatory to the United Nations Principles for Responsible Investment (UNPRI) since 2012 and submits an annual report detailing how it incorporates ESG into its investment analysis.

The Company has not adopted a policy on human rights as it has no employees and its operational processes are delegated. As an investment company, the Company does not provide goods and services in the normal course of business and has no customers. Accordingly, the Board considers that the Company is not within the scope of the Modern Slavery Act 2015.

The Company's financial reports are printed by a company which has won awards for its environmental awareness and further details of this may be found on the back cover of this report.

Greenhouse Gas Emissions

The Company has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measureable carbon footprint. FIL Investment Services (UK) Limited and FIL Investments International are registered with the Carbon Reduction Commitment Energy Efficiency Scheme administered by the Environment Agency.

Socially Responsible Investment

The Manager's primary objective is to produce superior financial returns for the Company's Shareholders. It believes that high standards of corporate social responsibility ("CSR") make good business sense and have the potential to protect and enhance investment returns. Consequently, its investment process takes social, environmental and ethical issues into account when, in the Manager's view, these have a material impact on either investment risk or return.

Strategic Report continued

Corporate Engagement
The Board believes that the Company should, where appropriate, take an active interest in the affairs of the companies in which it invests and that it should exercise its voting rights at their general meetings. Unless there are any particularly controversial issues (which are then referred to the Board), it delegates the responsibility for corporate engagement and Shareholder voting to the Manager. These activities are reviewed regularly by the Manager's corporate governance team.

Future Developments
Some trends likely to affect the Company in the future are also common to many investment companies together with the impact of regulatory change. The factors likely to affect the Company's future development, performance and positions are set out in the Chairman's Statement and the Portfolio Manager's Review on pages 2 to 5.

By Order of the Board
FIL Investments International
Secretary
1 November 2017

Portfolio Listing

as at 31 August 2017

The Gross Asset Exposures shown below and on pages 12 to 15 measure exposure to market price movements as a result of owning shares and derivative instruments. The Balance Sheet Value is the actual value of the portfolio. Where a contract for difference ("CFD") is held, the Balance Sheet Value reflects the profit or loss on the contract since it was opened and is based on how much the share price of the underlying share has moved.

Long Exposures – shares unless otherwise stated	Sector	Gross Asset Exposure £'000	Gross Asset Exposure %[1]	Balance Sheet Value £'000
Citigroup A global bank focussed on North and South America, with a strong balance sheet that allows profits to be returned to shareholders as share buybacks. Citigroup stands out globally as a very attractively valued stock in a strong end-market, with opportunities to cut costs and grow market share.	Banks	38,332	5.7	38,332
Royal Dutch Shell (shares and long CFD) An integrated oil and gas company, Shell is our favoured energy stock. The acquisition of BG Group has significantly enhanced Shell's portfolio. The company now has a significant opportunity to increase production and reduce costs, which could lead to higher free cash flow generation.	Oil & Gas Producers	34,900	5.2	24,317
CRH (long CFD) A global leader in cement and aggregates which should benefit from the improving outlook for infrastructure-related construction projects across developed markets. CRH enjoys a leading position in US and European cement markets, and as such is well positioned to benefit from the renewed focus on infrastructure spending in the US and Europe.	Construction & Materials	31,914	4.7	2,803
Ultra Electronics Holdings Attractively valued defence company that has chosen to invest in R&D and acquire related businesses despite military budget declines. Synergies from acquisitions and integration have not been factored in by the market. The company is well positioned to benefit should a pick up in defence spending materialise.	Aerospace & Defence	25,677	3.8	25,677
Shire Shire is amongst the cheapest European Pharmaceutical stocks, despite offering superior growth potential. Shire stands out as the most attractively valued business in a conventionally 'defensive' sector in the UK market today, with unrecognised growth optionality.	Pharmaceuticals & Biotechnology	25,594	3.8	25,594
Ladbrokes Coral Group A company engaged in the betting and gaming industry. Following the acquisition of Coral, Ladbrokes' online platform is making good progress, and profit margins should improve considerably over time, as significant cost savings are possible. At current valuations, Ladbrokes is one of the cheapest and most unloved stocks in the portfolio, and has one of the most attractive risk/reward payoffs.	Travel & Leisure	21,749	3.2	21,749
Lloyds Banking Group (shares and long CFD) Lloyds is a high quality retail bank in an attractive UK banking market. It has a strong capital position and a significantly derisked loan book. Lloyds has transformed its business over the past decade, and it seems that income investors are beginning to recognise the attractive dividend characteristics of the company.	Banks	20,981	3.1	4,751

STRATEGY GOVERNANCE FINANCIAL INFORMATION FOR SHAREHOLDERS

Portfolio Listing continued

as at 31 August 2017

Long Exposures – shares unless otherwise stated	Sector	Gross Asset Exposure £'000	Gross Asset Exposure %[1]	Balance Sheet Value £'000
esure Group A UK personal insurer geared to benefit from the motor insurance pricing cycle and solid balance sheet post the demerger of Gocompare.com. The company has seen good earnings momentum recently as it was able to raise prices and take advantage of its high solvency ratio to pay a larger dividend than expected.	Non-life Insurance	20,843	3.1	20,843
BT Group BT is amongst the cheapest of the European telecom incumbents, and a likely beneficiary of long-term spending increases on broadband and data. The move towards quad-play (following the purchase of EE) gives the company significant possibilities for growth and cost savings.	Fixed Line Telecommunications	19,372	2.9	19,372
Phoenix Group Holdings Phoenix is one of the largest providers of insurance services in the UK. The company has been adding value through acquisition and reducing costs, increasing the profitability and cash generation of the assets. The outlook for further deals looks positive, and with limited competition in the consolidation market, the company should be able to price deals attractively.	Life Insurance	19,287	2.9	19,287
Ten largest long exposures		**258,649**	**38.4**	**202,725**
Other long exposures				
Ferguson	Support Services	18,252	2.7	18,252
Cairn Homes	Household Goods & Home Construction	16,147	2.4	16,147
Aviva (long CFD)	Life Insurance	15,193	2.3	3,352
Bank of Ireland (long CFD)	Banks	14,567	2.2	(2,065)
Booker Group	Food & Drug Retailers	14,376	2.1	14,376
Coats Group	General Industrials	14,057	2.1	14,057
CLS Holdings	Real Estate Investment & Services	13,766	2.0	13,766
Sherborne Investors (Guernsey)	Financial Services	13,719	2.0	13,719
John Laing Group	Financial Services	13,015	1.9	13,015
Alphabet	Software & Computer Services	13,012	1.9	13,012
International Personal Finance (shares & fixed interest)	Financial Services	12,824	1.9	12,824
Synthomer	Chemicals	12,003	1.8	12,003
Serco Group	Support Services	11,170	1.7	11,170
Allied Irish Bank	Banks	10,361	1.5	10,361
Photo-Me International	Leisure Goods	9,878	1.5	9,878
FBD Holdings	Non-life Insurance	9,831	1.5	9,831
Royal Mail	Industrial Transportation	9,006	1.3	9,006
Electra Private Equity	Equity Investment Instruments	8,716	1.3	8,716

Long Exposures – shares unless otherwise stated	Sector	Gross Asset Exposure £'000	%[1]	Balance Sheet Value £'000
SIG	Support Services	8,671	1.3	8,671
Homeserve	Support Services	8,287	1.2	8,287
Sports Direct International (shares and long CFD)	General Retailers	8,158	1.2	5,991
H&T Group	Financial Services	7,409	1.1	7,409
Livanova	Banks	6,904	1.0	6,904
Speedy Hire	Support Services	6,867	1.0	6,867
Royal Bank of Scotland Group	Banks	6,734	1.0	6,734
Burford Capital	Financial Services	6,519	1.0	6,519
Spotify Technology (convertible senior notes)	Media	6,455	1.0	6,455
Vitec Group	Industrial Engineering	6,382	0.9	6,382
Senior	Aerospace & Defence	6,200	0.9	6,200
Renewi	Support Services	5,877	0.9	5,877
Summit Germany	Real Estate Investment & Services	5,751	0.9	5,751
Norcros	Construction & Materials	5,545	0.8	5,545
Huntsworth	Media	5,394	0.8	5,394
Bloomsbury Publishing	Media	5,352	0.8	5,352
Millennium & Copthorne	Travel & Leisure	5,347	0.8	5,347
Zegona Communications	Financial Services	5,247	0.8	5,247
Leonardo	Aerospace & Defence	5,123	0.8	5,123
Saga	General Retailers	5,020	0.7	5,020
Man Group	Financial Services	4,889	0.7	4,889
Balfour Beatty	Construction & Materials	4,795	0.7	4,795
U and I Group	Real Estate Investment & Services	4,646	0.7	4,646
Paypoint	Support Services	4,628	0.7	4,628
Mccolls Retail Group	Food & Drug Retailers	4,469	0.7	4,469
TT Electronics	Electronic & Electrical Equipment	4,344	0.6	4,344
Hewlett Packard Enterprises	Software & Computer Services	4,191	0.6	4,191
Hargreaves Services	Industrial Transportation	3,925	0.6	3,925
Essentra	Support Services	3,896	0.6	3,896
Fairfax Financial Holdings	Non-life Insurance	3,869	0.6	3,869
DXC Technology	Software & Computer Services	3,810	0.6	3,810
Pearson	Media	3,726	0.6	3,726
NOS	Media	3,646	0.5	3,646
Alstria Office REIT	Real Estate Investment Trusts	3,603	0.5	3,603
Connect Group	Support Services	3,556	0.5	3,556

Portfolio Listing continued

as at 31 August 2016

Long Exposures – shares unless otherwise stated	Sector	Gross Asset Exposure		Balance Sheet Value
		£'000	%[1]	£'000
Morgan Advanced Materials	Electronic & Electrical Equipment	3,467	0.5	3,467
Hewlett-Packard	Software & Computer Services	3,346	0.5	3,346
Vectura Group	Pharmaceuticals & Biotechnology	3,326	0.5	3,326
Begbies Traynor Group	General Retailers	3,237	0.5	3,237
Chemring Group	Aerospace & Defence	3,204	0.5	3,204
Semafo	Mining	3,165	0.5	3,165
Findel	General Retailers	2,921	0.4	2,921
Gocompare.com Group	Media	2,852	0.4	2,852
Jimmy Choo	Personal Goods	2,567	0.4	2,567
Taiheiyo Cement (long CFD)	Construction & Materials	2,481	0.4	85
St Ives	Support Services	2,374	0.4	2,374
Carpetright	General Retailers	2,368	0.4	2,368
Paragon Group	Financial Services	2,344	0.3	2,344
Engie	Gas, Water & Multi-utilities	2,215	0.3	2,215
SOCO International	Oil & Gas Producers	1,892	0.3	1,892
Central Asia Metals	Mining	1,742	0.3	1,742
Meggitt	Aerospace & Defence	1,741	0.3	1,741
Hochschild Mining	Mining	1,735	0.3	1,735
Dialight	Electronic & Electrical Equipment	1,703	0.3	1,703
NEX Group	Financial Services	1,643	0.2	1,643
Manx Telecom	Fixed Line Telecommunications	1,611	0.2	1,611
Amerisur Resources	Oil & Gas Producers	1,572	0.2	1,572
Wentworth Resource	Oil & Gas Producers	1,518	0.2	1,518
Next Fifteen Communications Group	Media	1,516	0.2	1,516
CPL Resources (long CFD)	Support Services	1,473	0.2	20
Mckay Securities	Real Estate Investment Trusts	1,472	0.2	1,472
Marwyn Value Investors	Equity Investment Instruments	1,440	0.2	1,440
Spirent Communications	Technology Hardware & Equipment	1,332	0.2	1,332
Mothercare	General Retailers	1,316	0.2	1,316
LXB Retail Properties	Real Estate Investment Trusts	1,188	0.2	1,188
Nevsun Resources (shares and long CFD)	Mining	1,086	0.2	800

Long Exposures – shares unless otherwise stated	Sector	Gross Asset Exposure £'000	%[1]	Balance Sheet Value £'000
Nostrum Oil & Gas	Oil & Gas Producers	1,008	0.1	1,008
Laird	Electronic & Electrical Equipment	923	0.1	923
AXA Property Trust	Real Estate Investment Trusts	832	0.1	832
Lamprell	Oil Equipment, Services & Distribution	825	0.1	825
Oxford Instruments Group	Electronic & Electrical Equipment	774	0.1	774
Polar Capital Holdings	Financial Services	674	0.1	674
Alliance Pharmaceutical	Pharmaceuticals & Biotechnology	599	0.1	599
Stanley Gibbons Group	Software & Computer Services	417	0.1	417
NCC Group	Software & Computer Services	336	0.1	336
Green Dragon Gas	Oil & Gas Producers	330	0.1	330
Parkmead Group	Oil & Gas Producers	304	0.0	304
TVC Holdings	Financial Services	293	0.0	293
Vietnam Infrastructure Private Equity Portfolio	Financial Services	45	0.0	45
Total long exposures before hedges (107 holdings)		**750,984**	**111.5**	**660,285**
Less: Hedging Exposure				
FTSE 250 Index Future September 2017		(43,745)	(6.5)	259
Total long exposures after the netting of hedges		**707,239**	**105.0**	**660,544**
Short Exposures				
Short CFDs (10 holdings)		27,813	4.1	(4,897)
Gross Asset Exposure[2]		**735,052**	**109.1**	
Portfolio Fair Value[3]				**655,647**
Net current assets (excluding derivative assets and liabilities)				17,855
Shareholders' Funds				**673,502**

1 Gross Asset Exposure is expressed as a percentage of Shareholders' Funds.

2 Gross Asset Exposure comprises market exposure to investments of £653,972,000 (per Note 10: Investments, on pages 52 and 53) plus market exposure to derivative instruments of £81,080,000 (per Note 11: Derivative instruments, on pages 53 and 54).

3 Portfolio Fair Value comprises Investments of £653,972,000 plus derivative assets of £10,678,000 less derivative liabilities of £9,003,000 (per the Balance Sheet, on page 44).

Distribution of the Portfolio

as at 31 August 2017

The table below and on pages 17 and 18 details the Distribution of the Portfolio based on Gross Asset Exposure which measures the exposure of the Portfolio to market price movements as a result of owning shares, derivative instruments and fixed interest securities.

Shares, derivative instruments and fixed-interest securities	**UK %**	**Overseas %**	**2017 Gross Asset Exposure[1] %**	**Index[2] %**	2016 Gross Asset Exposure[1] %
Financials					
Banks	8.3	5.7	14.0	11.2	14.2
Financial Services	7.8	1.7	9.5	3.0	9.2
Non-life Insurance	4.3	0.6	4.9	1.1	3.5
Life Insurance	4.8	–	4.8	4.3	4.4
Real Estate Investment & Services	3.4	–	3.4	0.6	5.6
Equity Investment Instruments	1.4	–	1.4	4.4	1.4
Real Estate Investment Trusts	0.7	0.5	1.2	1.9	1.5
	30.7	**8.5**	**39.2**	**26.5**	39.8
Industrials					
Support Services	10.2	0.5	10.7	5.2	12.6
Construction & Materials	5.9	0.4	6.3	1.5	6.4
Aerospace & Defence	5.1	0.8	5.9	1.9	4.3
General Industrials	2.4	–	2.4	1.0	0.8
Industrial Transportation	1.8	–	1.8	0.4	4.4
Electronic & Electrical Equipment	1.6	–	1.6	0.5	0.8
Industrial Engineering	0.8	–	0.8	0.7	3.0
	27.8	**1.7**	**29.5**	**11.2**	32.3
Consumer Services					
Media	2.6	1.5	4.1	3.3	2.4
Travel & Leisure	3.7	–	3.7	4.6	6.5
General Retailers	3.2	–	3.2	1.8	3.4
Food & Drug Retailers	2.6	–	2.6	1.3	1.1
	12.1	**1.5**	**13.6**	**11.0**	13.4
Oil & Gas					
Oil & Gas Producers	5.8	–	5.8	11.2	7.9
Oil Equipment, Services & Distribution	0.1	–	0.1	0.3	–
	5.9	**–**	**5.9**	**11.5**	7.9

Shares, derivative instruments and fixed-interest securities	UK %	Overseas %	2017 Gross Asset Exposure[1] %	Index[2] %	2016 Gross Asset Exposure[1] %
Consumer Goods					
Household Goods & Home Construction	2.2	–	2.2	3.5	1.7
Leisure Goods	1.4	–	1.4	–	1.3
Personal Goods	0.4	0.6	1.0	2.7	0.7
Automobiles & Parts	–	0.8	0.8	0.2	0.3
Food Producers	–	0.5	0.5	0.8	0.6
Beverages	–	–	–	3.0	–
Tobacco	–	–	–	5.9	–
	4.0	**1.9**	**5.9**	**16.1**	4.6
Health Care					
Pharmaceuticals & Biotechnology	4.1	–	4.1	7.4	3.5
Health Care Equipment & Services	–	0.6	0.6	1.0	–
	4.1	**0.6**	**4.7**	**8.4**	3.5
Technology					
Software & Computer Services	0.1	3.6	3.7	0.8	7.3
Technology Hardware & Equipment	0.2	–	0.2	–	0.2
	0.3	**3.6**	**3.9**	**0.8**	7.5
Basic Materials					
Chemicals	1.7	–	1.7	0.6	1.8
Mining	0.9	0.6	1.5	6.6	1.9
Forestry & Paper	–	–	–	0.3	0.6
Industrial Metals & Mining	–	–	–	0.1	–
	2.6	**0.6**	**3.2**	**7.6**	4.3
Telecommunications					
Fixed Line Telecommunications	2.9	–	2.9	1.1	2.2
Mobile Telecommunications	–	–	–	2.6	–
	2.9	**–**	**2.9**	**3.7**	2.2

Distribution of the Portfolio continued

as at 31 August 2017

Shares, derivative instruments and fixed-interest securities	UK %	Overseas %	2017 Gross Asset Exposure[1] %	Index[2] %	2016 Gross Asset Exposure[1] %
Utilities					
Gas, Water & Multi-utilities	–	0.3	0.3	2.5	–
Electricity	–	–	–	0.7	–
	–	**0.3**	**0.3**	**3.2**	–
Total Gross Asset Exposure after the netting of hedges	**90.4**	**18.7**	**109.1**	**100.0**	
Total Gross Asset Exposure after the netting of hedges – 2016	97.1	18.4			115.5

1 Gross Asset Exposure after the netting of hedges is expressed as a percentage of Shareholders' Funds.
2 The FTSE All-Share Index which is the Company's Benchmark Index.

Ten Year Record

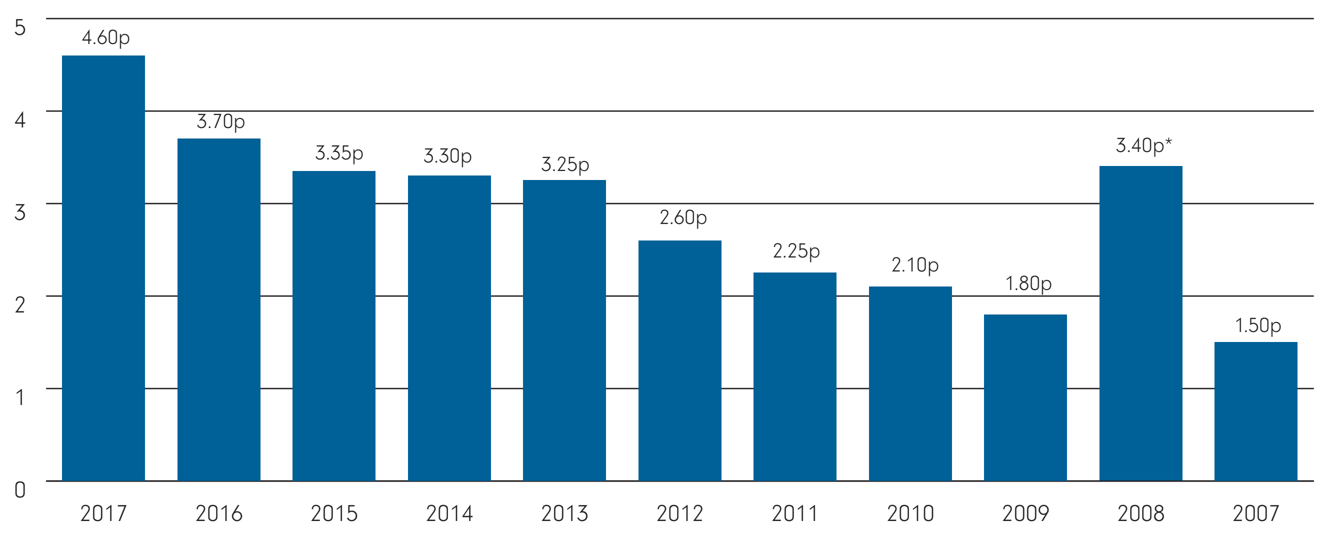
as at 31 August 2017

As at 31 August	**2017**	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Capital											
Shareholders' funds (£m)	**673.5**	578.3	537.3	519.2	478.5	338.6	312.5	333.8	334.5	319.3	376.6
NAV per share (p)[1]	**254.63**	217.94	201.61	192.29	176.79	124.54	110.57	117.24	117.50	112.43	126.75
Share price (p)[1]	**246.50**	196.25	197.50	180.20	168.00	105.40	98.80	106.00	110.00	96.30	118.40
Discount to NAV (%)	**3.2**	10.0	2.0	6.3	5.0	15.4	10.6	9.6	6.4	14.3	6.1
Revenue											
Revenue return per ordinary share (p)[1]	**5.33**	4.15	3.39	3.10	3.40	2.65	2.29	2.15	1.75	3.43[2]	1.38
Dividends per ordinary share (p)[1]	**4.60**	3.70	3.35	3.30	3.25	2.60	2.25	2.10	1.80	3.40[2]	1.50
Ongoing charges (costs of running the Company) (%)	**1.06**	1.10	1.10	1.12	1.21	1.24	1.23	1.23	1.32	1.14	1.32
Gearing											
Gross gearing (%)[3]	**9.1**	15.5	23.8	21.0	24.8	12.6	7.8	12.6	n/a	n/a	n/a
Net gearing (%)[4]	**0.9**	7.9	9.4	6.4	14.0	(0.9)	(2.2)	2.6	n/a	n/a	n/a
Gearing ratio (bank loans) (%)	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.7	3.4	2.8
Performance Total Returns											
NAV (%)	**+19.1**	+9.9	+7.3	+10.7	+44.8	+15.0	-4.1	+1.3	+9.0	-9.8	+15.9
Share price (%)	**+28.1**	+1.1	+12.4	+9.2	+63.1	+9.2	-5.0	-2.1	+19.4	-17.6	+14.3
Benchmark Index (%)	**+14.3**	+11.7	-2.3	+10.3	+18.9	+10.2	+7.3	+10.6	-8.2	-8.7	+11.8

1 Figures prior to 2015 have been restated to reflect the five for one sub-division of ordinary shares which took place on 29 June 2015.
2 Includes repayment of £2,306,000 VAT on management fees recovered from HM Revenue & Customs.
3 Gross gearing is the total of; long exposures, plus short exposures and less exposures hedging the portfolio, expressed as a percentage of Shareholders' funds.
4 Net gearing is the total of; long exposures, less short exposures and less exposures hedging the portfolio, expressed as a percentage of Shareholders' funds.

Sources: Fidelity and Datastream.
Past performance is not a guide to future returns.

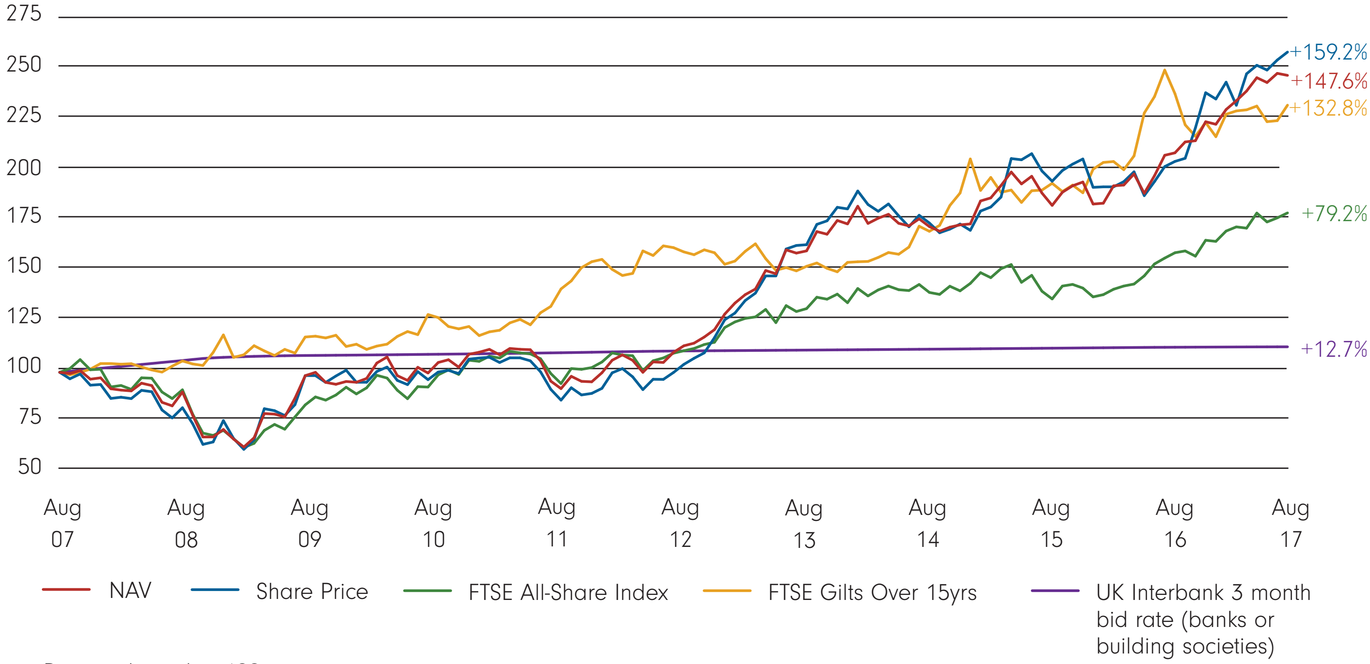
Dividends per ordinary share for ten years to 31 August 2017 (pence)



* Includes repayment of VAT on management fees.

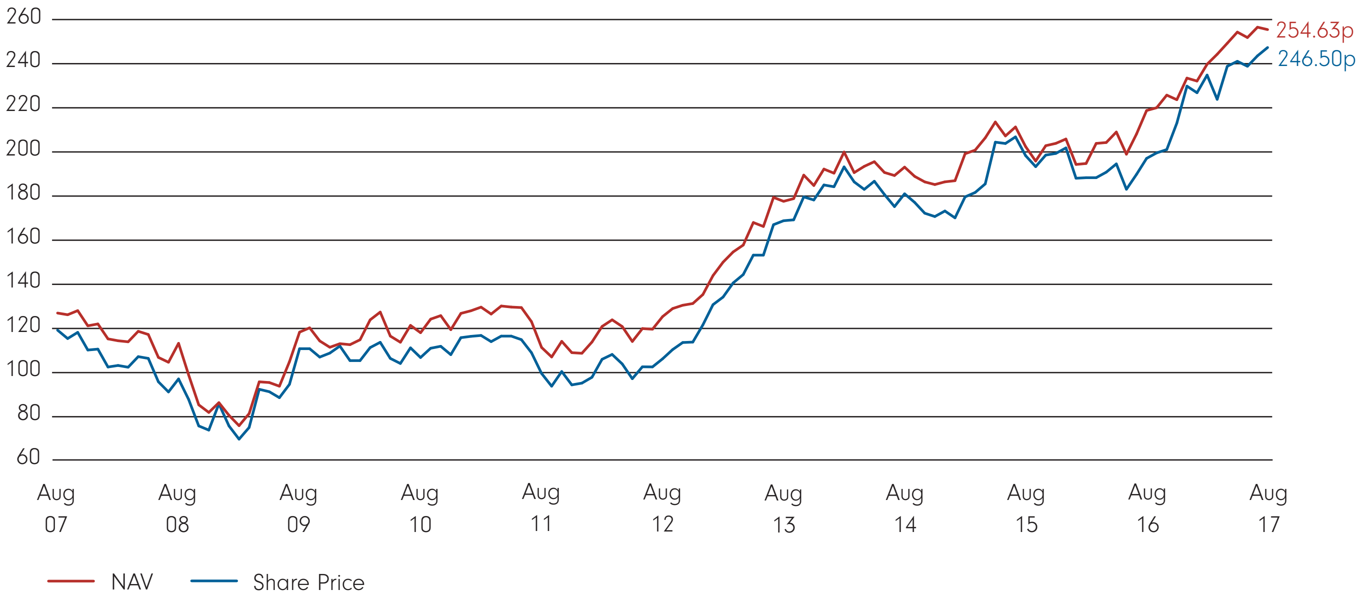
Summary of Performance Charts

Total Return performance for ten years to 31 August 2017



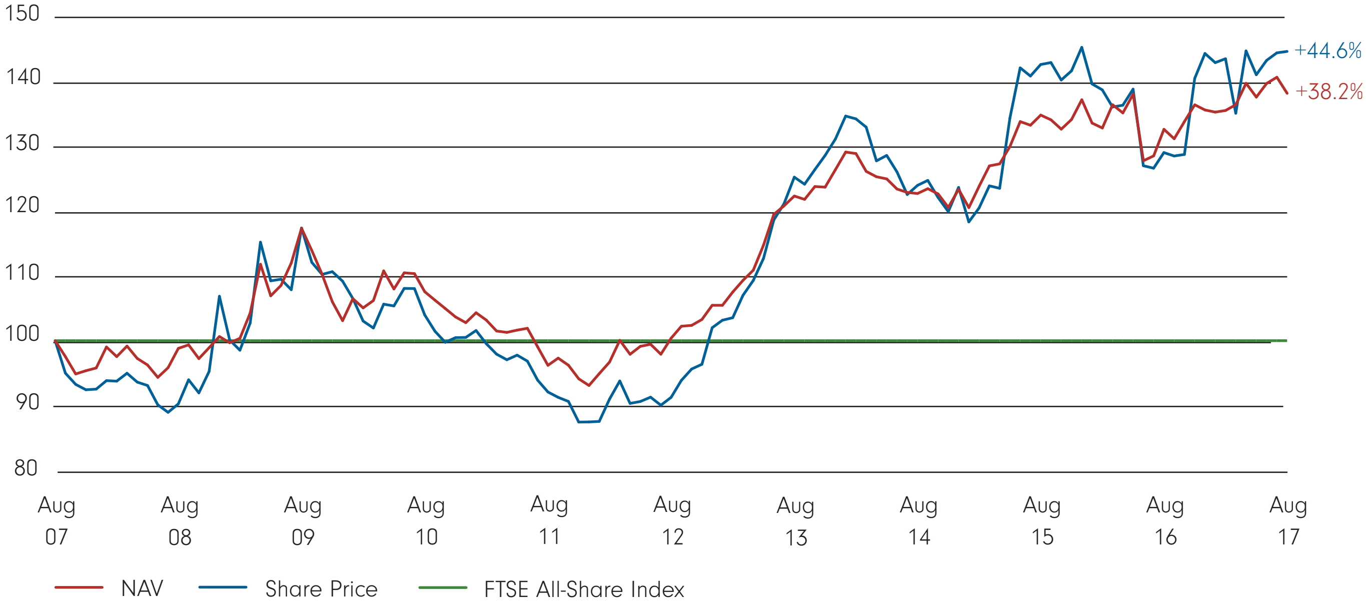
Prices rebased to 100
Sources: Fidelity and Datastream

NAV and share price for ten years to 31 August 2017



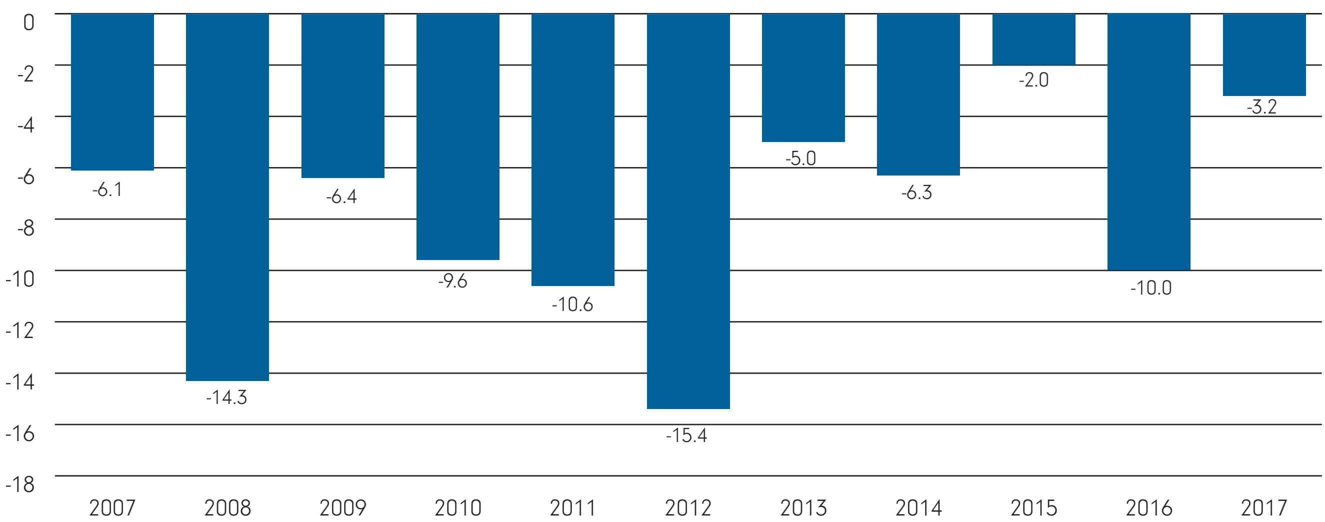
Sources: Fidelity and Datastream

Total return performance relative to the Benchmark Index for ten years to 31 August 2017



Prices rebased to 100
Sources: Fidelity and Datastream

Share price discount to NAV for ten years to 31 August 2017 (%)



Source: Fidelity

Attribution Analysis

Analysis of change in NAV total return for the year ended 31 August 2017

Impact of:	%
Index	+14.3
Stock selection	+5.3
Gearing	+0.7
Share Repurchases	+0.1
Operational Costs and Tax	-1.3
NAV total return for the year ended 31 August 2017	**+19.1**

5 Highest absolute sector contributors and detractors

5 highest contributors	%
Financial Services	+4.8
Banks	+3.3
Non-life Insurance	+1.6
General Industrials	+1.5
Support Services	+1.4

5 highest detractors	%
Pharmaceuticals & Biotechnology	-1.1
Fixed Line Telecommunications	-0.8
Travel & Leisure	-0.5
Industrial Transportation	-0.2
Mining	-0.2

5 Highest absolute stock contributors and detractors

5 highest contributors	%
Citigroup	+2.4
Burford Capital	+2.3
Coats Group	+1.6
esure Group	+1.2
Cairn Homes	+1.2

5 highest detractors	%
Shire	-1.0
BT Group	-0.8
Ladbrokes Coral Group	-0.8
Royal Mail	-0.7
Regus	-0.6

Source: Fidelity.

Board of Directors

Andy Irvine
Chairman (since 5 July 2016)
Appointed 15 April 2010
Member of the:
Management Engagement Committee (Chairman)
Nomination Committee (Chairman)

Andy Irvine is a Non-Executive Chairman of Jones Lang La Salle Scotland and has over 30 years' experience in commercial property development and investment. He is also Chairman of Montanaro European Smaller Companies PLC and a Non-Executive Director of BlackRock North American Income Trust plc. Mr Irvine is a past Non-Executive Director of Securities Trust of Scotland PLC, a past Chairman of Celtic Rugby Limited, a past Chairman of the British and Irish Lions Limited and a past President of the Scottish Rugby Union.

Nigel Foster
Appointed 1 September 2015
Member of the:
Audit Committee
Management Engagement Committee
Nomination Committee

Nigel Foster has over 30 years' experience in the financial services industry. Prior to joining the Board, he was the Head of Trading & Liquidity Strategies Group for the EMEA region and Global Head of Derivatives at BlackRock. Previously, he was Chief Executive at E-Crossnet and set up and ran this pan-European equity crossing network for major institutions. He was a Managing Director at Merrill Lynch Investment Managers and a Fund Manager at Robert Fleming (now part of JP Morgan).

Sharon Brown
Senior Independent Director (since 5 July 2016)
Chairman of the Audit Committee (since 26 October 2010)
Appointed 15 April 2010
Member of the:
Audit Committee (Chairman)
Management Engagement Committee
Nomination Committee

Sharon Brown is a Non-Executive Director and Chairman of the Audit Committee of F&C Capital and Income Investment Trust PLC, McColl's Retail Group plc and of Celtic PLC. She is also a Director of a number of limited companies in the retail sector. Between 1998 and 2013 she was Finance Director of Dobbies Garden Centres plc. She is a Fellow of the Chartered Institute of Management Accountants.

Nicky McCabe
Appointed 9 December 2004
Member of the:
Nomination Committee

Nicky McCabe is Fidelity's Head of Investment Trusts. She is also a Director of FIL Investment Services (UK) Limited, FIL Retirement Services Limited and Financial Administration Services Limited, and a Trustee of Tomorrow's People. Previously, she was Chief Operating Officer of Eight Roads and of Fidelity's investment management teams, having joined Fidelity in 1999 as Head of Investment Administration and prior to this, she worked for HSBC Asset Management and McKinsey & Co. She will retire from Fidelity at the end of December 2017 but will remain a Non-Executive Director of the Company.

Dean Buckley
Appointed 3 November 2015
Member of the:
Audit Committee
Management Engagement Committee
Nomination Committee

Dean Buckley is a Non-Executive Director of JPMorgan Asian Investment Trust plc and Saunderson House Ltd. He was previously Chief Executive Officer at Scottish Widows Investment Partnership. Prior to this, he held several positions at HSBC Bank plc, including Chief Executive Officer for HSBC Asset Management UK and Middle East and Chief Investment Officer for HSBC Asset Management, European equities, and held a number of senior fund manager positions at Prudential Portfolio Managers. He is a Fellow of the Institute of Actuaries.

All Directors are Non-Executive Directors and all are independent, with the exception of Nicky McCabe.

Directors' Report

The Directors have pleasure in presenting their report together with the audited Financial Statements of the Company for the year ended 31 August 2017.

The Company was incorporated in England and Wales as a public limited company on 27 September 1994 under the name of Fidelity Special Values PLC with the registered number 2972628 and commenced business as an investment trust on 17 November 1994.

Management Company
FIL Investment Services (UK) Limited ("FISL") is the Company's appointed Alternative Investment Fund Manager (the "AIFM"/ Manager). FISL, as the Manager, has delegated the portfolio management of assets and the role of company secretary to FIL Investments International.

The Alternative Investment Fund Management and Secretarial Services Agreement (the "Management Agreement") will continue unless and until terminated by either party giving to the other, not less than six months' notice in writing. However, it may be terminated without compensation if the Company is liquidated 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 sixty days' notice if the Manager ceases to be a subsidiary of FIL Limited.

FIL Limited has no beneficial interest in the shares of the Company (2016: same).

The Board reviews the Management Agreement at least annually and details are included in the Corporate Governance Statement on page 29.

Fee Arrangements
The Management Agreement provides portfolio management services for an annual fee of 0.875% of the Company's net assets per annum (excluding the value of any investment in any fund managed by the Manager) and a fixed fee of £600,000 for services other than portfolio management (to include company secretarial, fund accounting, taxation, promotional and corporate advisory services). Fees are calculated and paid quarterly.

The Manager has an arrangement with certain 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 credited to capital and included in the 'gains on sales of investments' in Note 10 on page 53. In the year to 31 August 2017, £9,000 was received (2016: £61,000). There is a regulatory requirement on the Manager to obtain best execution and no deal is entered into which prevents compliance.

The Board
All Directors served on the Board throughout the year ended 31 August 2017. A brief description of all serving Directors as at the date of this report is shown on page 23 and indicates their qualifications for Board membership.

Nicky McCabe, a Non-Executive Director of the Company, is employed by Fidelity and is the Head of Investment Trusts. She will retire from Fidelity at the end of December 2017 but will remain on the Board as a Non-Executive Director.

Directors' and Officers' Liability Insurance
In addition to benefits under the Manager's global Directors' and Officers' liability insurance arrangements, the Company maintains insurance cover for its Directors under its own policy as permitted by the Companies Act 2006.

Going Concern Statement
The Directors have considered the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio (being mainly securities which are readily realisable) and its expenditure and cash flow projections and have concluded that the Company has adequate resources to continue to adopt the going concern basis for at least twelve months from the date of this Annual Report. The prospects of the Company over a period longer than twelve months can be found in the Viability Statement on page 9.

Auditor's Appointment
A resolution to reappoint Ernst & Young LLP as Auditor to the Company will be proposed at the AGM on 11 December 2017.

Disclosure of Information to the Company's Auditor
As required by Section 418 of the Companies Act 2006, each Director in office as at the date of this report confirms that:

a) so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and

b) each Director has taken all the steps that ought to have been taken as a Director to make himself/herself aware of any audit information, and to establish that the Company's Auditor is aware of that information.

Articles of Association
Any amendments to the Company's Articles of Association must be made by special resolution.

Corporate Governance
The Corporate Governance Statement forms part of this report and can be found on pages 27 to 30.

Registrar, Custodian and Depositary Arrangements

The Company employs Capita Asset Services as its Registrar to manage the Company's share register, JPMorgan Chase Bank as its Custodian, which is primarily responsible for safeguarding the Company's assets, and J.P. Morgan Europe Limited as its Depositary, which is primarily responsible for oversight of the custody of investment funds and the protection of investors' interests. Fees paid to these service providers are disclosed in Note 5 on page 50.

Share Capital

The Company's share capital comprises ordinary shares of 5 pence each which are fully listed on the London Stock Exchange. As at 31 August 2017, the issued share capital of the Company was 270,644,480 shares (2016: 270,644,480) of which 6,145,000 shares (2016: 5,295,000) are held in Treasury. Shares in Treasury do not have voting rights, therefore, the total number of shares with voting rights was 264,499,480 (2016: 265,349,480).

Premium/Discount Management: Enhancing Shareholder Value

The Board actively manages the level of premium/discount and seeks to maintain the discount in single digits in normal market conditions. It seeks authority from Shareholders each year to issue shares at a premium or to repurchase shares at a discount to the NAV either for cancellation or for holding in Treasury. The Board will exercise these authorities if deemed to be in the best interests of Shareholders at the time.

Share Issues

No ordinary shares were issued during the year to 31 August 2017 (2016: nil) and none have been issued since the year end and as at the date of this report.

The authorities to issue shares and to disapply pre-emption rights expire at the AGM on 11 December 2017, therefore resolutions renewing these authorities will be put to Shareholders at this AGM.

Share Repurchases

During the year to 31 August 2017, the Company repurchased 850,000 ordinary shares for holding in Treasury (2016: 1,175,000). No shares have been repurchased since the year end and as at the date of this report.

The authority to repurchase shares expires at the AGM on 11 December 2017 and a special resolution to renew the authority to purchase shares for cancellation, including the ability to buy shares into Treasury, will be put to Shareholders for approval at the forthcoming AGM.

Substantial Share Interests

As at 31 August 2017 and 30 September 2017, notification had been received that the Shareholders listed in the table in the next column held more than 3% of the issued share capital of the Company.

Shareholders	**31 August 2017 (%)**	30 September 2017 (%)
Fidelity Platform Investors	**28.22**	28.09
Alliance Trust Savings	**6.27**	6.10
Hargreaves Lansdown	**5.77**	5.79
Rathbones	**4.90**	4.89
Investec Wealth & Investment	**3.76**	3.80
Old Mutual Global Investors	**3.62**	3.62

An analysis of ordinary Shareholders as at 31 August 2017 is detailed in the table below.

Ordinary Shareholders as at 31 August 2017	**% of voting share capital**
Private Shareholders*	**85.72**
Institutions	**9.94**
Insurance	**2.18**
Pensions	**2.07**
Other	**0.09**

* Includes Fidelity Platform Investors (28.22%).

Additional information required in the Directors' Report

Information on proposed dividends, financial instruments and greenhouse emissions is set out in the Strategic Report on pages 6 to 10.

Responsibility as an Institutional Shareholder

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. Fidelity is a signatory to the UK Stewardship Code setting out the responsibilities of institutional Shareholders and agents. Further details of the Manager's Principles of Ownership and voting may be found at www.fidelity.co.uk.

Relations with Shareholders

Communication with Shareholders is given a high priority by the Board and it liaises with the Manager and the Company's broker who are in regular contact with the Company's major institutional investors to canvass Shareholder opinion and to communicate its views to Shareholders. All Directors are made aware of any Shareholders' views and the Chairman, the Senior Independent Director and, where appropriate, other Directors, are available to meet with Shareholders to discuss strategy and governance. The Board regularly monitors the Shareholder profile of the Company and receives regular reports from the Manager on meetings attended with Shareholders and any

Directors' Report continued

comments raised in such meetings. The Board aims to provide the maximum opportunity for dialogue between the Company and Shareholders. If any Shareholder wishes to contact a member of the Board directly they should either email the Company Secretary at **investmenttrusts@fil.com** or write to the address provided on page 69. The Company Secretary will attend to any enquiries promptly and ensure that they are directed to the Chairman, Senior Independent Director or the Board as a whole, as appropriate.

The Board encourages all Shareholders to attend the AGM on 11 December 2017 at which they have the opportunity to meet and address questions to the Chairman, other members of the Board, the Portfolio Manager and representatives of the Manager.

The Notice of Meeting on pages 65 to 67 sets out the business of the AGM and the special business resolutions are explained more fully below. A separate resolution is proposed on each substantially separate issue including the Annual Report and Financial Statements. The Notice of the AGM and related papers are sent to Shareholders at least 20 working days before the Meeting.

Voting Rights in the Company's Shares

Every person entitled to vote on a show of hands has one vote. On a poll every Shareholder who is present in person or by proxy or representative has one vote for every ordinary share held. At general meetings all proxy votes are counted and, except where a poll is called, proxy voting is reported for each resolution after it has been dealt with on a show of hands. The proxy voting results are disclosed on the Company's page of the Manager's website at **www.fidelityinvestmenttrusts.com**.

Annual General Meeting

THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you should seek advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000.

If you have sold, transferred or otherwise disposed of all your ordinary shares in the Company, you should pass this document, together with any other accompanying documents (but not the personalised Form of Proxy or Form of Direction) as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer, for onward transmission to the purchaser or transferee.

At the AGM on 11 December 2017, resolutions will be proposed relating to the items of business set out in the Notice of Meeting on pages 65 and 66, including the items of special business summarised below.

Authority to Allot Shares

Resolution 12 is an ordinary resolution and provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £1,353,222. If passed, this resolution will enable the Directors to allot a maximum of 27,064,448 ordinary shares which represents approximately 10% of the issued ordinary share capital of the Company (including Treasury shares) as at 1 November 2017 and to impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with Treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter. The Directors would not intend to use this power unless they considered that it was in the interests of Shareholders to do so. Any shares issued would be at NAV per share or at a premium to NAV per share.

Authority to Disapply Pre-emption Rights

Resolution 13 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 or sale of Treasury shares for cash up to an aggregate nominal value of £1,353,222 (including Treasury shares) (approximately 10% of the issued ordinary share capital of the Company as at 1 November 2017 and equivalent to 27,064,448 ordinary shares).

Authority to Repurchase the Company's Shares

Resolution 14 is a special resolution which renews the Company's authority to purchase up to 14.99% (39,648,472) of ordinary shares in issue (excluding Treasury shares) on 1 November 2017 either for immediate cancellation or for retention as Treasury shares at the determination of the Directors. Once shares are held in Treasury, the Directors may only dispose of them in accordance with the relevant legislation by subsequently selling the shares for cash or by cancelling the shares. Purchases of ordinary shares will be at the discretion of the Directors and within guidelines set from time to time by them in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing NAV per share.

Recommendation: The Board considers that each of the resolutions is likely to promote the success of the Company and is in the best interests of the Company and its Shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings.

By Order of the Board
FIL Investments International
Secretary
1 November 2017

Corporate Governance Statement

"Corporate governance" is the process by which the board of directors of a company look after shareholders' interests and by which it endeavours to enhance those interests (often referred to as "shareholder value"). Shareholders hold the Directors responsible for the stewardship of a company's affairs, delegating authority to the Directors to manage the Company on their behalf and holding them accountable for its performance.

This report, which forms part of the Directors' Report, explains how the Directors of Fidelity Special Values PLC deal with that responsibility, authority and accountability.

Corporate Governance Codes

The Board follows the principles of the UK Corporate Governance Code (the "UK Code") issued by the Financial Reporting Council (the "FRC") in 2016 and the AIC's Code of Corporate Governance (the "AIC Code") issued by the Association of Investment Companies (the "AIC") in 2016. The FRC has confirmed that investment companies which report against the AIC Code and which follow the AIC Guide on Corporate Governance will meet their obligations under the UK Code and paragraph 9.8.6 of the Listing Rules. This statement, together with the Statement of Directors' Responsibilities on page 34, set out how the principles have been applied.

The AIC Code and the AIC Guide can be found on the AIC's website at www.theaic.co.uk and the UK Code on the FRC's website at www.frc.org.uk.

Statement of Compliance

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code for the year under review and up to the date of this report, except in relation to the UK Code provisions relating to the role of the chief executive; executive directors' remuneration; and the need for an internal audit function. For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers that these provisions are not relevant to the position of Fidelity Special Values PLC, as it is an externally managed investment company and has no executive directors, employees or internal operations.

The Corporate Governance of an Investment Trust Company

The corporate governance of most investment companies is different from most other commercial companies in one important respect: they do not employ their own people as management but instead the services of a fund management company. This affects the way investment companies are governed but not the purpose of their governance. Given that the Manager's business is not dedicated solely to the interests of investment companies and their Shareholders, investment company boards must be largely independent of management. However, it must have knowledge and experience of both fund management and investment company management. Fidelity Special Values PLC was established and is managed and promoted by its Manager, which is therefore one of the main reasons some Shareholders choose to invest in the Company's shares. It follows that it is an important aspect of the corporate governance of Fidelity Special Values PLC that its Manager should be party to the responsibility, authority and accountability to those investing in their management.

The Corporate Governance Policies and Modus Operandi of Fidelity Special Values PLC

The corporate governance of any investment company, while following the guidelines of the AIC Code, will vary in certain respects depending on its own circumstances. The Board of Fidelity Special Values PLC has considered its own circumstances and determined its own corporate governance policies and modus operandi.

In this section we have outlined the corporate governance policies and modus operandi through the following three aspects of corporate governance: Responsibility, Authority and Accountability. It is first of all important that Shareholders have confidence in the Board of Directors, whom they hold responsible and accountable for the Company's affairs.

In determining the guidelines for the composition of the Board, the Directors believe that there should be a clear majority of Board members (including the Chairman), who are independent of management, and that within the Board there is understanding and experience of investment management, investment company management, the investment objective of the Company, marketing, general business experience and finally of Fidelity's investment philosophy and its operations.

The Directors recognise that any individual employed by or materially associated with the Manager cannot be regarded as independent. Consequently, at any given time there has only ever been one Fidelity member serving as a Director on the Board. Details of the Directors' current business associations are set out on page 23. All of the independent Directors are considered to be free from any business or other relationship which could materially interfere with the exercise of their independent judgement. In addition, all Directors are able to allocate sufficient time to the Company to discharge their responsibilities fully and effectively. The Board follows a procedure of notification of any interests that may arise as part of considering any potential conflicts.

All of the Directors are Non-Executive and, other than Nicky McCabe, have no relationship with the Manager. Ms McCabe will retire from Fidelity at the end of December 2017 but will remain on the Board of the Company.

Each Director's individual independence, including that of the Chairman, has been assessed and confirmed, taking into consideration:

- integrity, commitment, intelligent challenge;
- independence of mind and character;
- experience and knowledge of investment trusts, of the investment business generally and of Fidelity;
- financial literacy;
- conflicts of interest; and
- performance as a Director.

	Regular Board Meetings	Nomination Committee Meetings	Audit Committee Meetings	Management Engagement Committee Meetings
Andy Irvine	5/5	1/1	n/a	1/1
Sharon Brown	5/5	1/1	3/3	1/1
Dean Buckley	5/5	1/1	3/3	1/1
Nigel Foster	5/5	1/1	3/3	1/1
Nicky McCabe	5/5	1/1	n/a	n/a

Figures indicate those meetings for which each Director was eligible to attend and attended in the year. Regular Board meetings exclude ad hoc meetings for formal approvals.

The Board considers the tenure of each Director annually. A Director may serve more than nine years, provided that such Director is considered by the Board to continue to be independent and provides experience that remains relevant. In addition, the Board decided in 2004 that each Director is subject to annual re-election by Shareholders.

The Board meets regularly to discharge its duties effectively and the table above gives the attendance record for the meetings held during the reporting year.

Responsibility

The responsibilities delegated by Shareholders to the Board of Directors include:

1. The stewardship and monitoring of the affairs of the Company, which includes the management of risk and the monitoring of the controls at work in the Company;

2. The promotion of the Company's prosperity so as to endeavour to maximise Shareholder value in the long term, which includes the responsibility for the appropriateness of the Company's investment objective, investment strategy and investment performance and for the Company's efforts in seeking to minimise the level and the volatility of the discount or premium at which the shares may sell in relation to the net asset value; and

3. Making recommendations to Shareholders (for their consideration at Annual General Meetings) on matters not delegated to the Board, which include the approval of the annual financial statements, the election and re-election of Directors and the appointment of the Independent Auditor.

Authority

The Board is furnished by Shareholders with the authority to manage the Company on their behalf, in order to discharge the responsibilities outlined above. The Board, being independent of the Manager (by majority), carries out its duties through Board meetings and Board appointed Committee meetings. The most important aspect of Directors' duties concerns the management of the Company's portfolio of assets and of the risk profile of its balance sheet. While the day-to-day investment management is delegated to the Manager, there are certain decisions retained and made by the Directors, including the payment of dividends, the share issue and share repurchase guidelines and the derivatives and gearing policies.

In structuring Board meetings, the Directors try to concentrate as much as possible of their regular Board meetings on (i) investment matters (including strategy, investment policy, gearing and derivatives policies, portfolio and stock reviews, portfolio turnover, monitoring performance etc); and (ii) Shareholder value matters (including monitoring the discount, share issues and share repurchases and the marketing of the Fidelity Platform Investors). The Chairman is responsible for the promotion of a culture of openness and debate, for ensuring that the Directors receive accurate, timely and clear information and for ensuring that there is adequate time available for the discussion of agenda items, particularly strategic issues.

The Board meets regularly with the Company's Broker to discuss Shareholder value and investor relation matters. The Manager meets with the larger Shareholders on a regular basis and reports back to the Board on those meetings. The Chairman also attends some of these meetings. Key representatives of the Manager attend each Board meeting, enabling the Board to discuss business matters further.

The Board discharges certain of its corporate governance responsibilities through three Committees as set out below and on page 29. Written terms of reference of each Committee are available on the Company's pages of the Manager's website at **www.fidelityinvestmenttrusts.com**.

The Audit Committee

The Audit Committee consists of Sharon Brown as Chairman, Dean Buckley and Nigel Foster. Full details of the Audit Committee are disclosed in the Report of the Audit Committee on pages 35 and 36.

The Management Engagement Committee

The Management Engagement Committee is chaired by Andy Irvine and consists of all the Directors except Nicky McCabe due to her connection with Fidelity. It meets at least once a year and reports to the Board, making recommendations where appropriate. It is charged with reviewing and monitoring the performance of the Manager and for ensuring that the terms of the Company's Management Agreement remains competitive and reasonable for Shareholders.

Ahead of the AGM, the Committee has reviewed the performance of the Manager and the fee basis and also that of its peers. The Committee noted the Company's good long term performance record and the commitment, quality and continuity of the team responsible for the Company, and concluded that it was in the interests of Shareholders that the appointment of the Manager should continue.

The Nomination Committee

The Nomination Committee is chaired by Andy Irvine and consists of all the Directors. It meets at least once a year and reviews the composition, size and structure of the Board. The Committee is responsible for succession planning and it is charged with nominating new Directors for consideration by the Board, and in turn for approval by Shareholders.

In respect of new Directors, the Board believes that it is important in the search for and recommendation of a candidate to the Board that it is controlled by the independent Directors who form the majority of this Committee. The Committee carries out its candidate search from the widest possible pool of talent against a set of objective criteria on the basis of merit, with due regard for the benefits of diversity, including gender, on the Board.

Upon appointment, each Director is provided with all relevant information regarding the Company and receives an induction on the investment operation and administration functions of the Company, together with a summary of their duties and responsibilities. Directors are encouraged to keep up to date and attend training courses on matters which are directly relevant to their involvement with the Company. They also receive regular briefings from, amongst others, the AIC, the Independent Auditor and the Company Secretary, regarding any proposed developments or changes in law or regulations that could affect the Company and/or the Directors.

The Committee also considers the re-election of Directors ahead of each AGM. It has considered the performance and contribution of each Director and has recommended their continued service to the Company. This has been endorsed by the Board which recommends their reappointment by Shareholders at the forthcoming AGM. The terms and conditions of appointment of Directors are available for inspection at the registered office of the Company and will be available prior to the next AGM.

Ahead of each AGM, an evaluation of the Board and its Committees takes place in the form of a questionnaire and one to one discussions. The performance of the Chairman is evaluated by the other Directors. The Company Secretary and Manager also participate in the evaluation process to provide all round feedback to the Board. The process is considered to be constructive in terms of identifying areas for improving the functioning and performance of the Board and action is taken on the basis of the results. As a consequence of this process, the Board has decided not to undertake an externally facilitated evaluation.

Accountability

Given that the Shareholders entrust the Board of Directors with the management of the Company's affairs, it is necessary that the Board accounts for itself to Shareholders. The process of accountability involves providing all the necessary information for Shareholders to make judgements about the Board's stewardship and performance through a full and informative annual financial report, a half-yearly financial report, the presentation of the Company's results and future prospects at the AGM and accessibility to the Board at any time via the Company Secretary.

The AGM is the occasion when the Board accounts for itself in a public meeting. It regards any bona fide issue that any Shareholder raises as one that should be put to all Shareholders at the AGM so that all those attending can hear any concerns expressed in an open forum and make their own judgement. The AGM provides Shareholders with an opportunity to vote on certain issues that are not ultimately delegated to the Board. This includes the election and re-election of Directors every year in addition to the normal matters of approving the financial statements, the appointment of the Independent Auditor, the issue of new shares and the repurchase of shares. Your Board has an established policy that enables Shareholders to decide whether they wish to continue the Company's existence by putting a "continuation vote" before the Shareholders at every third AGM. The next vote will be at the AGM in 2019.

Directors' Remuneration

The level of Directors' fees is determined by the whole Board. Full details are disclosed in the Directors' Remuneration report on pages 31 and 32.

Senior Independent Director

The Board has appointed Sharon Brown as Senior Independent Director. She fulfils the role as a sounding board for the Chairman, an intermediary for the other Non-Executive Directors as necessary, and to act as a channel of communication for Shareholders in the event that contact through the Chairman is inappropriate.

The Company Secretary

The Board has access to the advice and services of the Company Secretary. The Company Secretary 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 ability to take independent professional advice, if necessary, at the Company's expense.

Supply of Information

The 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. The Board receives this information in a timely manner and of a quality appropriate to enable it to discharge its duties.

Risk Management and Internal Controls

The Board is responsible for the Company's systems of risk management and of internal controls and for reviewing their effectiveness. The review takes place at least once a year. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives. It is responsible for the design, implementation and maintenance of controls and procedures to safeguard the assets of the Company although these tasks have been delegated on a day-to-day basis to the Manager. The system extends to operational and compliance controls and risk management. Clear lines of accountability have been established between the Board and the Manager. The Manager provides regular reports on controls and compliance issues to the Audit Committee and the Board. In carrying out its review, the Audit Committee has regard to the activities of the Manager, the Manager's compliance and risk functions and the Independent Auditor and also includes consideration of internal controls of similar reports issued by the other service providers.

The Board, assisted by the Manager, has undertaken a rigorous risk and controls assessment. It confirms that this is an effective ongoing process in order to identify, evaluate and manage the Company's principal business and operational risks, and that it has been in place throughout the year ended 31 August 2017 and up to the date of this report. This process is in accordance with the FRC's "Risk Management, Internal Control and Related Financial and Business Reporting" guidance.

The Board has reviewed the need for an internal audit function and has determined that the systems and procedures employed by the Manager, which are subject to inspection by the Manager's internal and external audit processes, provide sufficient assurance that a sound system of internal controls is maintained to safeguard Shareholders' investments and the Company's assets. An internal audit function, specific to the Company, is therefore considered unnecessary. The Audit Committee meets the Manager's internal audit representative at least three times a year. It receives a summary of the Manager's externally audited internal controls report on an annual basis.

Whistle-Blowing Procedure

Part of the Managers' role in ensuring the provision of a good service pursuant to the Management Agreement, includes the ability for employees of Fidelity to raise concerns through a workplace concerns escalation policy (or "whistle-blowing procedure"). Fidelity has advised the Board that it is committed to providing the highest level of service to its customers and to applying the highest standards of quality, honesty, integrity and probity. The aim of the policy is to encourage employees and others working for Fidelity to assist the Company in tackling fraud, corruption and other malpractice within the organisation and in setting standards of ethical conduct. This policy has been endorsed accordingly by the Board.

Bribery Act 2010

The Company is committed to carrying out business fairly, honestly and openly. The Board recognises the benefits this has to reputation and business confidence. The Board, the Manager, the Manager's employees and others acting on the Company's behalf, are expected to demonstrate high standards of behaviour when conducting business.

The Board acknowledges its responsibility for the implementation and oversight of the Company's procedures for preventing bribery, and the governance framework for training, communication, monitoring, reporting and escalation of compliance together with enforcing action as appropriate. The Board has adopted a zero tolerance policy in this regard.

On behalf of the Board

Andy Irvine
Chairman
1 November 2017

Directors' Remuneration Report

Chairman's Statement

The Directors' Remuneration Report for the year ended 31 August 2017 has been prepared in accordance with the Large & Medium-sized Companies & Groups (Accounts & Reports) (Amendment) Regulations 2013 (the "Regulations"). As the Board is comprised entirely of Non-Executive Directors and has no chief executive officer and employees, many parts of the Regulations, in particular those relating to chief executive officer pay and employee pay, do not apply and are therefore not disclosed in this report.

Ordinary resolutions to approve both the Directors' Remuneration Report and the Remuneration Policy will be put to Shareholders at the AGM on 11 December 2017. The Company's Independent Auditor is required to audit certain sections of this report and where such disclosures have been audited, the specific section has been indicated as such. The Auditor's opinion is included in its report on pages 37 to 42.

Directors' Remuneration

The annual fee structure since 1 January 2015 has been as follows: Chairman – £38,750; Chairman of the Audit Committee – £30,000; and Director – £25,500. Increases in Directors' remuneration are made to ensure that they remain competitive and sufficient to attract and retain the quality of Directors needed to manage the Company successfully.

The Remuneration Policy

The Remuneration Policy is subject to a binding vote, in the form of an ordinary resolution at every third Annual General Meeting ("AGM"). A binding vote means that if it is not successful the Board will be obliged to revise the policy and seek further Shareholder approval at a General Meeting specially convened for that purpose. The policy that has been in place has been updated to reflect HMRC regulations in relation to expenses incurred by Directors in attending to the affairs of the Company. These are treated as a taxable benefit. The proposed policy which is subject to a vote at the AGM on 11 December 2017 is set out below.

The Company's Articles of Association limit the aggregate fees payable to the Directors to a total of £200,000 per annum. Subject to this overall limit, it is the Board's policy to determine the level of Directors' fees having regard to the time spent by them on the Company's affairs; the level of fees payable to non-executive directors in the industry generally; the requirement to attract and retain individuals with suitable knowledge and experience; and the role that individual Directors fulfil. Other than fees and reasonable out-of-pocket expenses incurred in attending to the affairs of the Company, the Directors are not eligible for any performance related pay or benefits, pension related benefits, share options, long term incentive schemes, or other taxable benefits. The Directors are not entitled to exit payments and are not provided with any compensation for loss of office. Directors' fees are paid monthly in arrears. Directors do not serve a notice period if their appointment were to be terminated. The level of Directors' fees is determined by the whole Board. Directors do not vote on their own individual fees.

The Board reviews the Company's Remuneration Policy and implementation on an annual basis. Reviews are based on information provided by the Company's Manager, and research from third parties and it includes information on the fees of other similar investment trusts.

No Director has a service contract with the Company. New Directors are provided with a letter of appointment which, amongst other things, provides that their appointment is subject to the Companies Act 2006 and the Company's Articles of Association. Copies of the Directors' letters of appointment are available at each of the Company's AGMs and can be obtained from the Company's registered office.

The Company's remuneration policy will apply to new Board members, who will be paid the equivalent amount of fees as current Board members.

Report on the implementation of the Remuneration Policy

The Remuneration Policy (the "Policy"), as set out above, has been followed throughout the year ended 31 August 2017 and up to the date of this report. This Policy is subject to approval at this year's AGM.

Voting at the Company's last Annual General Meeting

At the AGM held on 13 December 2016, 98.95% of votes were cast in favour of the Directors' Remuneration Report for the year ended 31 August 2016, 0.67% of votes were cast against and 0.38% of votes were withheld.

The Company's Remuneration Policy was last approved by Shareholders at the AGM on 10 December 2014, with 97.57% of the votes cast in favour, 1.35% votes against and 1.08% votes withheld.

Single Total Figure of Remuneration

The single total aggregate Directors' remuneration for the year under review was £130,944 (2016: £168,882). This includes expenses incurred by Directors in attending to the affairs of the Company and are considered by HMRC to be a taxable benefit. Information on individual Directors' fees and taxable benefits (Directors' expenses) are disclosed in the table on the next page.

Directors' Remuneration Report continued

Remuneration of Directors	2018 Projected Fees (£)	**2017 Fees (Audited) (£)**	**2017 Taxable Benefits (Audited) (£)**	**2017 Total (Audited) (£)**	2016 Fees (Audited) (£)	2016 Taxable Benefits (Audited) (£)	2016 Total (Audited) (£)
Andy Irvine[1]	38,750	**38,750**	**5,491**	**44,241**	28,693	3,317	32,010
Sharon Brown	30,000	**30,000**	**5,144**	**35,144**	30,000	3,733	33,733
Dean Buckley[2]	25,500	**25,500**	**559**	**26,059**	21,250	1,394	22,644
Nigel Foster	25,500	**25,500**	**–**	**25,500**	25,500	–	25,500
Nicky McCabe[3]	17,000	**–**	**–**	**–**	–	–	–
Lynn Ruddick[4]	n/a	**n/a**	**n/a**	**n/a**	33,295	2,393	35,688
Ben Thomson[5]	n/a	**n/a**	**n/a**	**n/a**	8,038	1,866	9,904
Douglas Kinloch Anderson[5]	n/a	**n/a**	**n/a**	**n/a**	7,454	1,949	9,403
Total	136,750	**119,750**	**11,194**	**130,944**	154,230	14,652	168,882

1 Appointed as Chairman 5 July 2016.
2 Appointed 3 November 2015.
3 Waives her Directors' fees whilst employed by Fidelity. She will retire from Fidelity on 31 December 2017 but will remain a Director of the Company and be entitled to a fee from 1 January 2018.
4 Retired 5 July 2016.
5 Retired 15 December 2015.

Expenditure on Directors' Remuneration and Distributions to Shareholders

The table below shows the total amount paid out in Directors' remuneration and distributions to Shareholders. The projected Directors' remuneration for the year ending 31 August 2018 is disclosed in the table above.

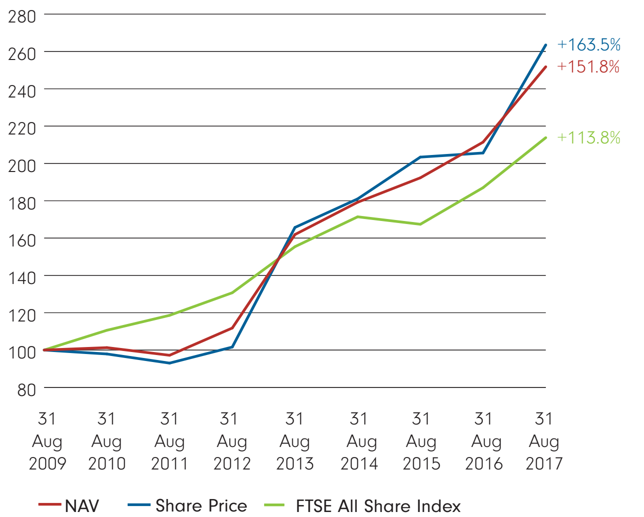
	31 August 2017 £	31 August 2016 £
Expenditure on Directors' Remuneration:		
Fees and taxable benefits*	**130,944**	168,882
Distribution to Shareholders:		
Dividend payments	**11,904,000**	8,922,000
Shares repurchased	**1,724,000**	2,216,000

* The change in the Directors fees and taxable benefits is due to the completion of the changes in Board membership.

Performance

The Company's investment objective is to achieve long term capital growth predominantly through investment in UK listed companies. The graph opposite shows performance over eight years to 31 August 2017.

Total return performance for eight years to 31 August 2017



Prices rebased to 100
Sources: Fidelity and Datastream

Directors' Interest in Ordinary Shares

Although there is no requirement for the Directors to hold shares in the Company, shareholdings by Directors are encouraged. The interests of the Directors' in the ordinary shares of the Company are shown below. All of the shareholdings are beneficial.

Directors' Shareholdings (Audited)

	31 August 2017	31 August 2016	Change during year
Andy Irvine	**75,000**	75,000	–
Sharon Brown	**15,600**	15,600	–
Dean Buckley	**12,500**	12,500	–
Nigel Foster[1]	**30,000**	20,000	10,000
Nicky McCabe[2]	**13,183**	12,990	193

1 Purchase of shares.
2 Dividend reinvestment.

The Portfolio Manager also holds ordinary shares in the Company.

All Directors' shareholdings remained unchanged at the date of this report.

On behalf of the Board

Andy Irvine
Chairman
1 November 2017

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with UK Generally Accepted Accounting Practice, including FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland. The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss for the period.

In preparing these Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that adequate 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 Financial Statements comply with the Companies Act 2006. 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.

Under applicable law and regulations the Directors are also responsible for preparing a Strategic Report, a Directors' Report, a Corporate Governance Statement and a Directors' Remuneration Report which comply with that law and those regulations.

The Directors have delegated responsibility for the maintenance and integrity of the corporate and financial information included on the Company's pages of the Manager's website at **www.fidelityinvestmenttrusts.com** to the Manager. Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of the Financial Statements may differ from legislation in their jurisdictions.

The Directors confirm that to the best of their knowledge:

- The Financial Statements, prepared in accordance with FRS 102, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- The Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces.

The Directors consider that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

Approved by the Board on 1 November 2017 and signed on its behalf by:

Andy Irvine
Chairman

Report of the Audit Committee

I am pleased to present the formal report of the Audit Committee (the "Committee") to Shareholders.

The primary responsibilities of the Committee are to ensure the integrity of the Company's financial reporting and the appropriateness of the risk management processes and internal controls. This report details how we carry out this role.

Composition and Meetings

The members of the Committee are myself as Chairman, Nigel Foster and Dean Buckley. All Committee members are independent Non-Executive Directors, and their skills and experience are set out on page 23. The Committee considers that collectively the members have sufficient recent and relevant sector and financial experience to fully discharge their responsibilities.

The Committee met three times during this reporting year. The Committee invites the Independent Auditor and personnel from the Manager's financial and internal audit functions to attend and report to the Committee on relevant matters. During the year, I also met privately with the Independent Auditor and a representative from the Manager's internal audit function to give them an opportunity to raise any issues without management present. After each Committee meeting, I report to the Board on the main items discussed at the meeting.

Ahead of each AGM, the Committee's performance is evaluated as part of the overall Board evaluation as reported on page 29.

Role and Responsibilities of the Audit Committee

The Committee's authority and duties are defined in its terms of reference, which were reviewed during the year and are available on the Company's pages of the Manager's website (**www.fidelityinvestmenttrusts.com**). The principal activities carried out during the year were:

- **Financial reporting:** we considered the Company's financial reports, including the implications of FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland and regulatory changes, significant accounting issues and the appropriateness of the accounting policies adopted. We considered and are satisfied that, taken as a whole, the 2017 Annual Report is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy;
- **Internal and external audits:** we considered the scope of the internal audit of the Manager and the external audit plan and the subsequent findings from this work, receiving regular reports from the internal audit function of the Manager and the Independent Auditor. The Committee also monitored progress in the implementation of the Manager's internal audit recommendations;
- **Risk and internal control:** we dedicated a full Committee meeting to the consideration of the key risks facing the Company and the adequacy and effectiveness of the internal controls and risk management processes; and
- **Independent Auditor:** we considered the independence, effectiveness and fees of the Independent Auditor, as detailed later in this report.

Significant issues considered by the Committee during the year

The Annual Report and Financial Statements are the responsibility of the Board and the Statement of Directors' Responsibilities is on page 34. The Audit Committee advises the Board on the form and content of the Annual Report and Financial Statements, any issues which may arise in relation to these and any specific areas which require judgement.

Summarised below are the most significant issues considered by the Committee in respect of these Financial Statements, and how these issues were addressed.

Recognition of Investment Income	Investment income is recognised in accordance with accounting policy Note 2(e) on page 46. The Manager provided detailed revenue forecasts which the Committee reviewed and sought explanations for any significant variances to these forecasts. The Committee also considered the allocation of special dividends between revenue and capital. The Committee reviewed internal audit and compliance monitoring reports received from the Manager to satisfy itself that adequate systems were in place for properly recording the Company's income. Investment income was also tested and reported on by the Independent Auditor.
Valuation, existence and ownership of investments (including derivatives)	The valuation of investments (including derivatives) is in accordance with accounting policy Notes 2(k) and 2(l) on pages 47 and 48. The Committee took comfort from the Depositary's regular oversight reports that investment related activities were conducted in accordance with the Company's investment policy. The Committee received reports from the Manager and the Company's Independent Auditor who had verified the valuation of the Company's investments and derivatives by reference to independent sources and had also confirmed the existence and ownership of the investments with the Company's Custodian and that of the derivatives with the Company's counterparties. Unlisted investments are appraised by Fidelity's Fair Value Pricing ("FFVP") Committee in accordance with UK GAAP and International Private Equity and Venture Capital Valuation Guidelines. The Committee receives information from the FFVP Committee and reviews and approves the proposed valuation methodologies for all unlisted investments.

Report of the Audit Committee continued

Independence and Effectiveness of the Audit Process

Ernst & Young LLP acted as the Company's Independent Auditor for the year ended 31 August 2017. Fees paid to the Independent Auditor for the audit of the Company's Financial Statements are disclosed in Note 5 on page 50.

With regard to the independence of the Auditor, the Committee reviewed:

- The audit plan for the year, including the audit team and approach to significant risks;
- The Auditor's arrangements for any conflicts of interest;
- The extent of any non-audit services*; and
- The statement by the Auditor that it remains independent within the meaning of the regulations and their professional standards.

* *There were no non-audit services provided to the Company during the reporting year and as at the date of this report.*

With regard to the effectiveness of the audit process, the Committee reviewed:

- The fulfilment by the Auditor of the agreed audit plan;
- The audit findings report issued by the Auditor on the audit of the Annual Report and Financial Statements for the year ended 31 August 2017; and
- Feedback from the Manager on the audit of the Company.

The Committee concluded that the Auditor continues to remain independent and the audit process remains effective.

Auditor's Appointment and Audit Tenure

Ernst & Young LLP was appointed as the Company's Independent Auditor on 30 November 2015 following a formal audit tender process in 2015. The Committee reviewed the Auditor's independence and the effectiveness of the audit process prior to recommending their reappointment for a further year. The Auditor is required to rotate audit partners every five years and this is the second year that the audit partner, Matthew Price, has been in place. The Committee will continue to review the Auditor's appointment each year to ensure that the Company continues to receive an optimal level of service. There are no contractual obligations that restricts the Company's choice of auditor.

Sharon Brown
Chairman of the Audit Committee
1 November 2017

Independent Auditor's Report to the Members of Fidelity Special Values PLC

Our opinion on the Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

We have audited the Financial Statements of Fidelity Special Values PLC which comprise:

- Income statement for the year ended 31 August 2017;
- Balance sheet as at 31 August 2017;
- Statement of changes in equity for the year ended 31 August 2017; and
- Related notes 1 to 19 to the Financial Statements.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures set out on page 8 in the Annual report that describe those risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 30 in the Annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 24 in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 9 in the Annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent Auditor's Report to the Members of Fidelity Special Values PLC continued

Overview of our audit approach

Key audit matters	• Incomplete or inaccurate investments and derivatives income recognition and specifically the recognition of special dividends, including incorrect allocation between revenue and capital • Valuation and existence of investments and derivatives
Materiality	• £6.7m (2016: £5.8m) which represents 1% of Company's net assets as of 31 August 2017

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incomplete or inaccurate investments and derivatives income recognition and specifically the recognition of special dividends, including incorrect allocation between revenue and capital *Refer to the Report of the Audit Committee page 35; Accounting policies (page 46); and Note 3 of the Financial Statements (page 49)* The Company has reported revenue of £21.1m for the year (2016: £18.0m). We identified the incomplete or inaccurate recognition of special dividends to be a fraud risk due to the requirement to exercise judgement and manual processing. The largest three special dividends received by the Company during the year were from: • Electra Private Equity (£11.9m); • Sherbone Investors (£5.8m); • LXB Retail Properties (£1.1m). Given this, we considered there to be a potential fraud risk in relation to special dividends, in accordance with Auditing Standards, in this area of our audit.	We performed the following procedures: • Walked through the revenue recognition process to obtain an understanding of the design effectiveness of the controls; • Agreed a sample of dividends to the corresponding announcement made by the investee company and agreed cash received to bank statements; • Agreed, for a sample of investee companies, the dividend announcements made by the investee company from an external third party source to the income entitlements recorded by the Company; • Agreed material accrued investment and derivative dividends to an independent source and to post year end bank statement to assess the recoverability of these amounts; • For the samples selected, we compared the exchange rate used to translate the investment and derivative dividend income received in foreign currency to an independent source; and • Considered the recognition criteria applied to the special dividends received during the year and their classification as revenue or capital.	The results of our procedures identified no issues with the accuracy, classification or completeness of income receipts, including special dividends. We noted no issues in agreeing the sample of dividend income from investments and derivatives to and from the independent source and to the bank statements. We noted no issues in agreeing the accrued dividend to an independent source and post year end bank statement. We concur with the accounting classification adopted for material special dividends as revenue or capital, including the classification of the £11.9m dividend from Electra Private Equity, £5.8m from Sherbone Investors and £1.1m from LXB Retail Properties as capital.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation and existence of investments and derivatives *Refer to the Report of the Audit Committee page 35; Accounting policies (pages 47 and 48); and Notes 10 and 11 of the Financial Statements (pages 52 to 54)* The valuation of investments and derivatives as at the year-end was £655.6m (2016: £541.5m), comprising £654m of investments and £1.7m of net derivatives (2016: £539.1m of investments and £2.4m of net derivatives). The investment portfolio is predominantly focused on listed investments and derivatives, the Level 3 valued investments in the current year were valued at £8.3m (2016: £5.9m). The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on portfolio valuation and, therefore, the return generated for Shareholders.	We performed the following procedures: • Independently valued 100% of the listed investments and derivatives prices in the portfolio using our bespoke asset pricing tool, and compared to those values of the Company; • Reviewed the valuation methodologies used by the Fair Value Committee and confirmed they were performed in accordance with FRS102 and International Private Equity and Venture Capital Valuation Guidelines; • Assessed the assumptions and judgements made by the Fair Value Committee in determining the fair value of the unlisted securities held by Fidelity Special Values at the year-end; • For those investments priced in currencies other than sterling we compared the exchange rates to an independent source and recalculated value of those investments; and • Agreed 100% of the holdings in the investment portfolio and derivatives to third party confirmations received from the Custodian or Brokers.	For all listed investments and derivatives, we noted no material differences in market value or exchange rates. Based on the work performed we concluded that the valuation ascribed to the Company's unlisted securities were appropriate. We noted no unreconciled differences between the Custodian, Brokers or Depository confirmations and the Company's underlying financial records.

The areas which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team remain unchanged from the prior year.

An overview of the scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. Taken together, this enables us to form an opinion on the Financial Statements. We take into account size, risk profile, the organisation and effectiveness of controls, changes in the business environment and other factors when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the Financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £6.7m (2016: £5.8m), which is 1% (2016: 1%) of net assets of the Company. We have used net assets of the Company as the basis for setting materiality as it provides the most important financial metric on which Shareholders judge the performance of the Company and it is a generally accepted auditing practice for investment trust audits.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

Independent Auditor's Report to the Members of Fidelity Special Values PLC continued

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2016: 50%) of our planning materiality, namely £5.1m (2016: £2.9m). We have increased performance materiality at this percentage as this is a second year audit and due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for the Company we also applied a separate testing threshold of £0.7m (2016: £0.3m) for the revenue column of the Income Statement, being 5% of the net return on ordinary activities before taxation (2016: 2.5%). We have increased the percentage from 2.5% to 5% as this is a second year audit and due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.3m (2016: £0.3m), which is set at 5% (2016: 5%) of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on page 25, including the Strategic Report on pages 6 to 10 and the Directors' Report set out on pages 24 to 26, other than the Financial Statements and our Auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 34** – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- **Audit Committee reporting set out on pages 35 and 36** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 27** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the Auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

- based on the work undertaken in the course of the audit:

  - the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements;

  - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received; or
- the Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 34, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

The objectives of our audit, in respect to fraud, are:

- To identify and assess the risks of material misstatement of the Financial Statements due to fraud;
- To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- To respond appropriately to fraud or suspected fraud identified during the audit.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code and section 1158 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of the Company's documented policies and procedures.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the Financial Statements to ensure compliance with the reporting requirements of the Company.
- We assessed the susceptibility of the Company's Financial Statements to material misstatement, including how fraud might occur by considering the key risks impacting the Financial Statements. We identified a fraud risk with respect to incomplete or inaccurate investments and derivatives income recognition and specifically the recognition of special dividends, including incorrect allocation between revenue and capital. Further discussion of our approach is set out in the section on key audit matters above.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

Independent Auditor's Report to the Members of Fidelity Special Values PLC continued

Other matters we are required to address

- Following the recommendation of the Audit Committee, we were re-appointed as Auditor by the Board of Directors and signed an engagement letter on 19 July 2017. We were initially appointed by the Company at the AGM on 15 December 2015 to audit the Financial Statements for the year ended 31 August 2016. The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the years ended 31 August 2016 to 31 August 2017.

- No non-audit services prohibited by the FRC's Ethical Standard were provided to the Company and we remain independent of the Company in conducting the audit.

- The audit opinion is consistent with the additional report to the Audit Committee.

Matthew Price
(Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor
London
1 November 2017

Notes:
The maintenance and integrity of the Fidelity International web site is the responsibility of Fidelity International; the work carried out by the Auditor does not involve consideration of these matters and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Income Statement

for the year ended 31 August 2017

	Notes	Year ended 31 August 2017 revenue £'000	Year ended 31 August 2017 capital £'000	Year ended 31 August 2017 total £'000	Year ended 31 August 2016 revenue £'000	Year ended 31 August 2016 capital £'000	Year ended 31 August 2016 total £'000
Gains on investments	10	–	99,508	99,508	–	43,853	43,853
Gains on long CFDs	11	–	4,075	4,075	–	1,328	1,328
Losses on short CFDs, futures and options	11	–	(9,066)	(9,066)	–	(3,840)	(3,840)
Investment and derivative income	3	21,146	–	21,146	18,022	–	18,022
Other interest	3	268	–	268	127	–	127
Investment management fees	4	(6,076)	–	(6,076)	(5,186)	–	(5,186)
Other expenses	5	(615)	–	(615)	(694)	–	(694)
Foreign exchange gains/(losses)		–	229	229	28	(285)	(257)
Net return on ordinary activities before finance costs and taxation		**14,723**	**94,746**	**109,469**	12,297	41,056	53,353
Finance costs	6	(346)	–	(346)	(1,085)	–	(1,085)
Net return on ordinary activities before taxation		**14,377**	**94,746**	**109,123**	11,212	41,056	52,268
Taxation on return on ordinary activities	7	(284)	–	(284)	(175)	–	(175)
Net return on ordinary activities after taxation for the year		**14,093**	**94,746**	**108,839**	11,037	41,056	52,093
Return per ordinary share	8	**5.33p**	**35.80p**	**41.13p**	4.15p	15.42p	19.57p

The Company does not have any other comprehensive income. Accordingly the net return on ordinary activities after taxation for the year is also the total comprehensive income for the year and no separate Statement of Comprehensive Income has been presented.

The total column of this statement represents the Income Statement of the Company. The revenue and capital columns are supplementary and presented for information purposes as recommended by the Statement of Recommended Practice issued by the AIC.

No operations were acquired or discontinued in the year and all items in the above statement derive from continuing operations.

The Notes on pages 46 to 63 form an integral part of these Financial Statements.

Balance Sheet

as at 31 August 2017
Company number 2972628

	Notes	2017 £'000	2016 £'000
Fixed assets			
Investments	10	**653,972**	539,096
Current assets			
Derivative instruments	11	**10,678**	16,169
Debtors	12	**4,743**	4,995
Amounts held at futures clearing houses and brokers		**1,386**	7,365
Fidelity Institutional Liquidity Fund		**11,796**	24,359
Cash at bank		**1,969**	2,469
		30,572	55,357
Creditors			
Derivative instruments	11	**(9,003)**	(13,783)
Other creditors	13	**(2,039)**	(2,379)
		(11,042)	(16,162)
Net current assets		**19,530**	39,195
Net assets		**673,502**	578,291
Capital and reserves			
Share capital	14	**13,532**	13,532
Share premium account	15	**95,896**	95,896
Capital redemption reserve	15	**3,256**	3,256
Other non-distributable reserve	15	**5,152**	5,152
Capital reserve	15	**543,218**	450,196
Revenue reserve	15	**12,448**	10,259
Total Shareholders' funds		**673,502**	578,291
Net asset value per ordinary share	16	**254.63p**	217.94p

The Financial Statements on pages 43 to 63 were approved by the Board of Directors on 1 November 2017 and were signed on its behalf by:

Andy Irvine
Chairman

The Notes on pages 46 to 63 form an integral part of these Financial Statements.

Statement of Changes in Equity

for the year ended 31 August 2017

	Notes	share capital £'000	share premium account £'000	capital redemption reserve £'000	other non-distributable reserve £'000	capital reserve £'000	revenue reserve £'000	total Shareholders' funds £'000
Total Shareholders' funds at 31 August 2016		**13,532**	**95,896**	**3,256**	**5,152**	**450,196**	**10,259**	**578,291**
Repurchase of ordinary shares	14	**–**	**–**	**–**	**–**	**(1,724)**	**–**	**(1,724)**
Net return on ordinary activities after taxation for the year		**–**	**–**	**–**	**–**	**94,746**	**14,093**	**108,839**
Dividends paid to Shareholders	9	**–**	**–**	**–**	**–**	**–**	**(11,904)**	**(11,904)**
Total Shareholders' funds at 31 August 2017		**13,532**	**95,896**	**3,256**	**5,152**	**543,218**	**12,448**	**673,502**
Total Shareholders' funds at 31 August 2015		13,532	95,896	3,256	5,152	411,356	8,144	537,336
Repurchase of ordinary shares	14	–	–	–	–	(2,216)	–	(2,216)
Net return on ordinary activities after taxation for the year		–	–	–	–	41,056	11,037	52,093
Dividends paid to Shareholders	9	–	–	–	–	–	(8,922)	(8,922)
Total Shareholders' funds at 31 August 2016		13,532	95,896	3,256	5,152	450,196	10,259	578,291

The Notes on pages 46 to 63 form an integral part of these Financial Statements.

Notes to the Financial Statements

1 Principal Activity

Fidelity Special Values PLC is an Investment Company incorporated in England and Wales with a premium listing on the London Stock Exchange. The Company's registration number is 2972628, and its registered office is Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP. The Company has been approved by HM Revenue & Customs as an Investment Trust under Section 1158 of the Corporation Tax Act 2010 and intends to conduct its affairs so as to continue to be approved.

2 Accounting Policies

The Company has prepared its Financial Statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland, issued by the Financial Reporting Council ("FRC"). The Financial Statements have also been prepared in accordance with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") issued by the Association of Investment Companies ("AIC"), in November 2014. The Company is exempt from presenting a Cash Flow Statement as a Statement of Changes in Equity is presented and substantially all of the Company's investments are highly liquid and are carried at market value.

a) Basis of accounting – The Financial Statements have been prepared on a going concern basis and under the historical cost convention, except for the measurement at fair value of investments and derivative instruments.

b) Significant accounting estimates and judgements – The Directors make judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The judgements required in order to determine the appropriate valuation methodology of level 3 financial instruments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities. These judgements include making assessments of the possible valuations in the event of a listing and other marketability related risks.

c) Segmental reporting – The Company is engaged in a single segment business and, therefore, no segmental reporting is provided.

d) Presentation of the Income Statement – In order to reflect better the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been prepared alongside the Income Statement. The net revenue return after taxation for the year is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1159 of the Corporation Tax Act 2010.

e) Income – Income from equity investments is accounted for on the date on which the right to receive the payment is established, normally the ex-dividend date. UK dividends are accounted for net of any tax credit. Overseas dividends are accounted for gross of any tax deducted at source. Amounts are credited to the revenue column of the Income Statement. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised in the revenue column of the Income Statement. Any excess in the value of the shares received over the amount of the cash dividend is recognised in the capital column of the Income Statement. Special dividends are treated as a revenue receipt or a capital receipt depending on the facts and circumstances of each particular case. Debt security interest is accounted for on an accruals basis and is credited to the revenue column of the Income Statement.

Derivative instrument income received from dividends on long contracts for difference ("CFDs") and derivative expenses paid as dividends on short CFDs are accounted for on the date on which the right to receive or make the payment is established, normally the ex-dividend date. The net amount is credited to the revenue column of the Income Statement.

Interest received on short CFDs, bank deposits and money market funds is accounted for on an accruals basis and is credited to the revenue column of the Income Statement.

2 Accounting Policies continued

f) Management fees and other expenses – Management fees and other expenses are accounted for on an accruals basis and are charged in full to the revenue column of the Income Statement.

g) Functional currency and foreign exchange – The Directors, having regard to the Company's share capital and the predominant currency in which its investors operate, have determined its functional currency to be UK sterling. UK sterling is also the currency in which the Financial Statements are presented. Transactions denominated in foreign currencies are reported in UK sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. Foreign exchange gains and losses arising on translation are recognised in the Income Statement as a revenue or a capital item depending on the nature of the underlying item to which they relate.

h) Finance costs – Finance costs represent interest paid on long CFDs and are accounted for on an accruals basis using the effective interest method. They are charged to finance costs in the revenue column of the Income Statement.

i) Taxation – The taxation charge represents the sum of current taxation and deferred taxation.

Current taxation is taxation suffered at source on overseas income less amounts recoverable under taxation treaties. Taxation is charged or credited to the revenue column of the Income Statement, except where it relates to items of a capital nature, in which case it is charged or credited to the capital column of the Income Statement. Where expenses are allocated between revenue and capital any tax relief in respect of the expenses is allocated between revenue and capital returns on the marginal basis using the Company's effective rate of corporation tax for the accounting period. The Company is an approved Investment Trust under Section 1158 of the Corporation Tax Act 2010 and is not liable for UK taxation on capital gains.

Deferred taxation is the taxation expected to be payable or recoverable on timing differences between the treatment of certain items for accounting purposes and their treatment for the purposes of computing taxable profits. Deferred taxation is based on tax rates that have been enacted or substantively enacted when the taxation is expected to be payable or recoverable. Deferred taxation assets are only recognised if it is considered more likely than not that there will be sufficient future taxable profits to utilise them.

j) Dividend paid – Dividends payable to equity Shareholders are recognised when the Company's obligation to make payment is established.

k) Investments – The Company's business is investing in financial instruments with a view to profiting from their total return in the form of income and capital growth. This portfolio of investments is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided on that basis to the Company's Board of Directors. Investments are measured at fair value with changes in fair value recognised in profit or loss, in accordance with the provisions of both Section 11 and Section 12 of FRS 102. The fair value of investments is initially taken to be their cost and is subsequently measured as follows:

- Listed investments and AIM quoted investments are valued at bid prices, or last market prices, depending on the convention of the exchange on which they are listed, or otherwise, at fair value based on published price quotations; and

- Unlisted investments, are investments which are not quoted, or are not frequently traded, and are stated at the Directors best estimate of fair value. The Manager's Fair Value Committee, which is independent of the Portfolio Manager's team, provides a recommendation of fair values to the Directors based on recognised valuation techniques that take account of the cost of the investment and recent arm's length transactions in the same or similar investments.

In accordance with the AIC SORP, the Company includes transaction costs, incidental to the purchase or sale of investments, within gains on investments in the capital column of the Income Statement and has disclosed these costs in Note 10.

2 Accounting Policies continued

l) Derivative instruments – When appropriate, permitted transactions in derivative instruments are used. Derivative transactions into which the Company may enter include long and short CFDs, futures and options. Derivatives are classified as other financial instruments and are initially accounted and measured at fair value on the date the derivative contract is entered into and subsequently measured at fair value as follows:

- Long and short CFDs – the difference between the strike price and the value of the underlying shares in the contract;
- Futures – the difference between contract price and the quoted trade price; and
- Options – the quoted trade price for the contract.

Where transactions are used to protect or enhance income, if the circumstances support this, the income and expenses derived are included in net income in the revenue column of the Income Statement. Where such transactions are used to protect or enhance capital, if the circumstances support this, the income and expenses derived are included: for long CFDs, as gains or losses on long CFDs, and for short CFDs, futures and options as gains or losses on short CFDs, futures and options in the capital column of the Income Statement. Any positions on such transactions open at the year end are reflected on the Balance Sheet at their fair value within current assets or creditors.

m) Debtors – Debtors include securities sold for future settlement, accrued income, taxation recoverable and other debtors and pre-payments incurred in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer) they are classified as current assets. If not, they are presented as non-current assets. They are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

n) Amounts held at futures clearing houses and brokers – These are amounts held in segregated accounts as collateral on behalf of brokers and are subject to an insignificant risk of changes in value.

o) Fidelity Institutional Liquidity Fund – The Company holds an investment in the Fidelity Institutional Liquidity Fund, a short term money market fund investing in a diversified range of short term instruments. The Fund is readily convertible to cash and is considered a cash equivalent. It is a distributing fund and accordingly the interest earned is credited to the revenue column of the Income Statement.

p) Other creditors – Other creditors include securities purchased for future settlement, investment management fees, interest payable and other creditors and expenses accrued in the ordinary course of business. If payment is due within one year or less (or in the normal operating cycle of the business, if longer) they are classified as current liabilities. If not, they are presented as non-current liabilities. They are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

q) Capital reserve – The following are accounted for in the capital reserve:

- Gains and losses on the disposal of investments and derivative instruments;
- Changes in the fair value of investments and derivative instruments held at the year end;
- Foreign exchange gains and losses of a capital nature;
- Dividends receivable which are capital in nature; and
- Costs of repurchasing ordinary shares.

As a result of technical guidance issued by the Institute of Chartered Accountants in England and Wales in TECH 02/10: Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006, changes in the fair value of investments which are readily convertible to cash, without accepting adverse terms at the Balance Sheet date, can be treated as realised. Capital reserves realised and unrealised are shown in aggregate as capital reserve in the Statement of Changes in Equity and the Balance Sheet. At the Balance Sheet date the portfolio of the Company consisted of: investments listed on a recognised stock exchange and derivative instruments, contracted with counterparties having an adequate credit rating, and the portfolio was considered to be readily convertible to cash, with the exception of level 3 investments which had unrealised investment holding gains of £895,000 (2016: £422,000).

3 Income

	Year ended 31.08.17 £'000	Year ended 31.08.16 £'000
Investment income		
UK dividends	**12,339**	9,327
UK scrip dividends	**90**	95
Overseas dividends	**3,712**	3,546
Overseas scrip dividends	**1,254**	862
Debt security interest	**564**	384
	17,959	14,214
Derivative income/(expenses)		
Dividends received on long CFDs	**3,776**	4,937
Dividends and interest paid on short CFDs	**(589)**	(1,129)
	3,187	3,808
Investment and net derivative income	**21,146**	18,022
Other interest		
Interest received on short CFDs	**132**	56
Interest received on bank deposits and money market funds	**136**	71
	268	127
Total investment and net derivative income and other interest	**21,414**	18,149

4 Investment Management Fees

	Year ended 31.08.17 £'000	Year ended 31.08.16 £'000
Portfolio management services	**5,476**	4,586
Non-portfolio management services*	**600**	600
Investment management fees	**6,076**	5,186

* Includes company secretarial, fund accounting, taxation, promotional and corporate advisory services.

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management to FIL Investments International ("FII"). Both companies are Fidelity group companies. FII charges portfolio management services fees at an annual rate of 0.875% of net assets. Fees are payable quarterly in arrears and are calculated on the last business day of March, June, September and December.

Notes to the Financial Statements continued

5 Other Expenses

	Year ended 31.08.17 £'000	Year ended 31.08.16 £'000
AIC fees	**21**	21
Custody fees	**15**	17
Depositary fees	**52**	47
Directors' expenses	**17**	17
Directors' fees[1]	**120**	154
Legal and professional fees	**84**	106
Marketing expenses	**128**	155
Printing and publication expenses	**87**	89
Registrars' fees	**46**	42
Fees payable to the Independent Auditor for the audit of the Financial Statements[2]	**24**	24
Sundry other expenses	**21**	22
	615	694

1 Details of the breakdown of Directors' fees are disclosed in the Directors' Remuneration Report on page 32.
2 The VAT payable on audit fees is included in sundry other expenses.

6 Finance Costs

	Year ended 31.08.17 £'000	Year ended 31.08.16 £'000
Interest paid on long CFDs	**346**	1,085

7 Taxation on Return on Ordinary Activities

a) Analysis of the taxation charge for the year	**Year ended 31.08.17 £'000**	Year ended 31.08.16 £'000
Overseas taxation recovered	**(91)**	(18)
Overseas taxation suffered	**375**	193
Total taxation charge for the year (see Note 7b)	**284**	175

b) Factors affecting the taxation charge for the year

The taxation charge for the year is lower than the standard rate of UK corporation tax for an investment trust company of 19.58% (2016: 20.00%). A reconciliation of tax at the standard rate of UK corporation tax to the taxation charge for the year is shown below:

	Year ended 31.08.17 £'000	Year ended 31.08.16 £'000
Return on ordinary activities before taxation	**109,123**	52,268
Return on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19.58% (2016: 20.00%)	**21,366**	10,454
Effects of:		
Capital returns not taxable*	**(18,551)**	(8,211)
Income not taxable	**(3,368)**	(2,761)
Expenses in excess of those set off against current year taxable profits	**553**	518
Overseas taxation recovered	**(91)**	(18)
Overseas taxation suffered	**375**	193
Total taxation charge for the year (see Note 7a)	**284**	175

* The Company is exempt from UK taxation on capital returns as it meets the HM Revenue & Customs criteria for an investment company set out in Section 1159 of the Corporation Tax Act 2010.

c) Deferred taxation

A deferred tax asset of £10,887,000 (2016: £10,289,000), in respect of expenses of £64,042,000 (2016: £57,160,000) available to be set off against future taxable profits has not been recognised as it is unlikely that there will be sufficient future taxable profits to utilise these expenses.

8 Return per Ordinary Share

	Year ended 31 August 2017			Year ended 31 August 2016		
	revenue	**capital**	**total**	revenue	capital	total
Return per ordinary share – basic and diluted	**5.33p**	**35.80p**	**41.13p**	4.15p	15.42p	19.57p

The returns per ordinary share are based on, respectively; the net revenue return on ordinary activities after taxation for the year of £14,093,000 (2016: £11,037,000), the net capital return on ordinary activities after taxation for the year of £94,746,000 (2016: £41,056,000) and the net total return on ordinary activities after taxation for the year of £108,839,000 (2016: £52,093,000), and on 264,637,494 ordinary shares (2016: 266,183,770), being the weighted average number of ordinary shares held outside Treasury in issue during the year.

Notes to the Financial Statements continued

9 Dividends Paid to Shareholders

	Year ended 31.08.17 £'000	Year ended 31.08.16 £'000
Dividends paid		
Interim dividend of 1.80 pence per ordinary share paid for the year ended 31 August 2017	**4,761**	–
Final dividend of 2.70 pence per ordinary share paid for the year ended 31 August 2016	**7,143**	–
Interim dividend of 1.00 pence per ordinary share paid for the year ended 31 August 2016	**–**	2,659
Dividend of 2.35 pence per ordinary share paid for the year ended 31 August 2015	**–**	6,263
	11,904	8,922
Dividend proposed		
Final dividend proposed of 2.80 pence per ordinary share for the year ended 31 August 2017	**7,406**	–
Final dividend of 2.70 pence per ordinary share paid for the year ended 31 August 2016	**–**	7,143
	7,406	7,143

The Directors have proposed the payment of a final dividend for the year ended 31 August 2017 of 2.80 pence per ordinary share which is subject to approval by Shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The dividend will be paid on 9 January 2018 to Shareholders on the register at the close of business on 8 December 2017 (ex-dividend date 7 December 2017).

10 Investments

	2017 £'000	2016 £'000
Listed investments	**594,635**	461,651
AIM quoted investments	**37,429**	64,346
Specialist Fund Market investments	**15,160**	7,239
Unlisted investments	**6,748**	5,860
Total investments at fair value	**653,972**	539,096
Opening book cost	**469,953**	473,056
Opening investment holding gains	**69,143**	37,200
Opening fair value	**539,096**	510,256
Movements in the year		
Purchases at cost	**333,644**	229,514
Sales – proceeds	**(318,276)**	(244,527)
Sales – gains	**70,347**	11,910
Movement in investment holding gains	**29,161**	31,943
Closing fair value	**653,972**	539,096
Closing book cost	**555,668**	469,953
Closing investment holding gains	**98,304**	69,143
Closing fair value	**653,972**	539,096

10 Investments continued

	Year ended 31.08.17 £'000	Year ended 31.08.16 £'000
Gains on investments		
Gains on sales of investments	**70,347**	11,910
Investment holding gains	**29,161**	31,943
	99,508	43,853
Investment transaction costs		
Transaction costs incurred in the acquisition and disposal of investments, which are included in the gains on sales of investments above, were as follows:		
Purchases transaction costs	**1,167**	880
Sales transaction costs	**270**	198
	1,437	1,078

The portfolio turnover rate for the year was 54.2% (2016: 46.5%).

11 Derivative Instruments

	Year ended 31.08.17 £'000	Year ended 31.08.16 £'000
Gains on long CFDs		
Gains on long CFD positions closed	**3,687**	16,977
Movement on investment holding gains/(losses)	**388**	(15,649)
	4,075	1,328
Losses on short CFDs, futures and options		
Losses on short CFD contracts closed	**(320)**	(3,738)
Movement on investment holding (losses)/gains on short CFDs	**(3,700)**	2,124
(Losses)/gains on futures contracts closed	**(7,647)**	1,987
Movement on investment holding gains/(losses) on futures	**2,601**	(4,381)
Gains on options contracts closed	**–**	168
	(9,066)	(3,840)

Derivative instruments recognised on the Balance Sheet	2017 fair value £'000	2016 fair value £'000
Derivative instrument assets	**10,678**	16,169
Derivative instrument liabilities	**(9,003)**	(13,783)
	1,675	2,386

11 Derivative Instruments continued

At the year end the Company held the following derivative instruments	2017 fair value £'000	2017 gross asset exposure £'000	2016 fair value £'000	2016 gross asset exposure £'000
Long CFDs	**6,313**	**97,012**	5,925	152,398
Short CFDs	**(4,897)**	**27,813**	(1,197)	22,127
Index futures – hedging exposures	**259**	**(43,745)**	(2,342)	(45,606)
	1,675	**81,080**	2,386	128,919

12 Debtors

	2017 £'000	2016 £'000
Securities sold for future settlement	**1,578**	3,084
Accrued income	**3,006**	1,827
Taxation recoverable	**125**	48
Other debtors and prepayments	**34**	36
	4,743	4,995

The Directors consider that the carrying amount of debtors approximates to their fair value.

13 Other Creditors

	2017 £'000	2016 £'000
Securities purchased for future settlement	**685**	911
Creditors and accruals	**1,354**	1,468
	2,039	2,379

14 Share Capital

	2017 number of shares	2017 £'000	2016 number of shares	2016 £'000
Issued, allotted and fully paid ordinary shares of 5 pence each				
Held outside Treasury				
Beginning of the year	**265,349,480**	**13,267**	266,524,480	13,326
Ordinary shares repurchased into Treasury	**(850,000)**	**(42)**	(1,175,000)	(59)
End of the year	**264,499,480**	**13,225**	265,349,480	13,267
Held in Treasury				
Beginning of the year	**5,295,000**	**265**	4,120,000	206
Ordinary shares repurchased into Treasury	**850,000**	**42**	1,175,000	59
End of the year	**6,145,000**	**307**	5,295,000	265
Total share capital	**270,644,480**	**13,532**	270,644,480	13,532

During the year 850,000 ordinary shares (2016: 1,175,000) were repurchased and held in Treasury. The cost of repurchasing these shares was £1,724,000 (2016: £2,216,000) and this amount was charged to the capital reserve.

Ordinary shares held in Treasury carry no rights to vote, to receive a dividend or to participate in a winding up of the Company.

15 Reserves

The share premium account represents the amount by which the proceeds from the issue of ordinary shares has exceeded the cost of those ordinary shares. It is not distributable by way of dividend. It cannot be used to fund share repurchases.

The capital redemption reserve maintains the equity share capital of the Company and represents the nominal value of shares repurchased and cancelled. It is not distributable by way of dividend. It cannot be used to fund share repurchases.

The other non-distributable reserve represents an amount transferred in prior years from the warrant reserve. It is not distributable by way of dividend. It cannot be used to fund share repurchases.

The capital reserve represents realised gains or losses on investments and derivatives sold, unrealised increases and decreases in the fair value of investments and derivatives held and other income and costs recognised in the capital column of the Income Statement. It can be used to fund share repurchases and it is distributable by way of dividend. The Board have stated that it has no current intention to pay dividends out of capital.

The revenue reserve represents retained revenue surpluses recognised through the revenue column of the Income Statement. It is distributable by way of dividend.

16 Net Asset Value per Ordinary Share

The net asset value per ordinary share is based on net assets of £673,502,000 (2016: £578,291,000) and on 264,499,480 (2016: 265,349,480) ordinary shares, being the number of ordinary shares of 5 pence each held outside Treasury in issue at the year end. It is the Company's policy that shares held in Treasury will only be reissued at no less than net asset value per share or at a premium to net asset value per share and, therefore, shares held in Treasury have no dilutive effect.

Notes to the Financial Statements continued

17 Financial Instruments and Risk Management

Management of risk

The Company's investing activities in pursuit of its investment objective involve certain inherent risks. The Board confirms that there is an ongoing process for identifying, evaluating and managing the risks faced by the Company. The Board with the assistance of the Manager, has developed a risk matrix which, as part of the internal control process, identifies the risks that the Company faces. Principal risks identified are market, performance, discount control, gearing and currency risks. Other risks identified are tax and regulatory and operational risks, including those relating to third party service providers covering investment management, marketing and business development, company secretarial, fund administration and operations and support functions. Risks are identified and graded in this process, together with steps taken in mitigation, and are updated and reviewed on an ongoing basis. These risks and how they are identified, evaluated and managed are shown in the Strategic Report on page 8.

This note refers to the identification, measurement and management of risks potentially affecting the value of financial instruments. The Company's financial instruments may comprise:

- Equity shares and bonds held in accordance with the Company's investment objective and policies;
- Derivative instruments which comprise CFDs, futures and options on listed stocks and equity indices; and
- Cash, liquid resources and short term debtors and creditors that arise from its operations.

The risks identified arising from the Company's financial instruments are market price risk (which comprises interest rate risk, foreign currency risk and other price risk), liquidity risk, counterparty risk, credit risk and derivative instrument risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies are consistent with those followed last year.

Market price risk

Interest rate risk

The Company finances its operations through its share capital and reserves. In addition, the Company has gearing through the use of derivative instruments. The Board imposes limits to ensure gearing levels are appropriate. The Company is exposed to a financial risk arising as a result of any increases in interest rates associated with the funding of the derivative instruments.

Interest rate risk exposure

The values of the Company's financial instruments that are exposed to movements in interest rates are shown below:

Exposure to financial instruments that bear interest	**2017 £'000**	2016 £'000
Long CFDs – exposure less fair value	**90,699**	146,473
Exposure to financial instruments that earn interest		
Short CFDs – exposure plus fair value	**22,916**	20,930
Amounts held at futures clearing houses and brokers	**1,386**	7,365
Fidelity Institutional Liquidity Fund	**11,796**	24,359
Cash at bank	**1,969**	2,469
	38,067	55,123
Net exposure to financial instruments that bear interest	**52,632**	91,350

17 Financial Instruments and Risk Management continued

Foreign currency risk

The Company does not carry out currency speculation. The Company's net return on ordinary activities after taxation for the year and its net assets can be affected by foreign exchange movements because the Company has income and assets which are denominated in currencies other than the Company's functional currency which is UK sterling. The Company can also be subject to short term exposure from exchange rate movements, for example, between the date when an investment is purchased or sold and the date when settlement of the transaction occurs.

Three principal areas have been identified where foreign currency risk could impact the Company:

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

Currency exposure of financial assets

The currency exposure profile of the Company's financial assets is shown below:

					2017
currency	**investments at fair value £'000**	**long exposure to derivative instruments[1] £'000**	**debtors[2] £'000**	**cash at bank £'000**	**total £'000**
Euro	**61,847**	**47,954**	**93**	**36**	**109,930**
US dollar	**76,095**	**–**	**11,790**	**15**	**87,900**
Canadian dollar	**7,918**	**203**	**–**	**–**	**8,121**
Other foreign currencies	**–**	**2,481**	**200**	**–**	**2,681**
UK sterling	**508,112**	**2,629**	**5,842**	**1,918**	**518,501**
	653,972	**53,267**	**17,925**	**1,969**	**727,133**

					2016
currency	investments at fair value £'000	long exposure to derivative instruments[1] £'000	debtors[2] £'000	cash at bank £'000	total £'000
US dollar	95,995	1,480	120	167	97,762
Euro	32,228	44,410	98	–	76,736
Canadian dollar	6,014	–	44	–	6,058
Other foreign currencies	78	–	15	13	106
UK sterling	404,781	60,902	36,442	2,289	504,414
	539,096	106,792	36,719	2,469	685,076

1 The exposure to the market of long CFDs after the netting of hedging exposures.

2 Debtors comprise debtors, amounts held at futures clearing houses and brokers and amounts invested in the Fidelity Institutional Liquidity Fund.

17 Financial Instruments and Risk Management continued

Currency exposure of financial liabilities

The Company finances its investment activities through its ordinary share capital and reserves. The Company's financial liabilities comprise short positions on derivative instruments and other payables. The currency profile of these financial liabilities is shown below:

currency	short exposure to derivative instruments* £'000	creditors £'000	total £'000
			2017
US dollar	**3,227**	**44**	**3,271**
Other foreign currencies	**15,804**	**–**	**15,804**
UK sterling	**8,782**	**1,995**	**10,777**
	27,813	**2,039**	**29,852**

currency	short exposure to derivative instruments* £'000	creditors £'000	total £'000
			2016
US dollar	8,642	80	8,722
Other foreign currencies	9,409	37	9,446
UK sterling	4,076	2,262	6,338
	22,127	2,379	24,506

* The exposure to the market of short CFDs.

Other price risk

Other 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. 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 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. Other price risks arising from derivative positions, mainly due to the underlying exposures, are estimated using Value at Risk and Stress Tests as set out in the Company's internal Derivative Risk Measurement and Management Document.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company's assets mainly comprise readily realisable securities and derivative instruments which can be sold easily to meet funding commitments if necessary. Short-term flexibility is achieved by the use of a bank overdraft, if required.

17 Financial Instruments and Risk Management continued

Liquidity risk exposure

The remaining undiscounted gross cash outflows of the financial liabilities were all repayable within one year and consisted of derivative instrument liabilities of £9,003,000 (2016: £13,783,000) and creditors of £2,039,000 (2016: £2,379,000).

Counterparty risk

Certain of the derivative instruments in which the Company may invest are not traded on an exchange but instead will be traded between counterparties based on contractual relationships, under the terms outlined in the International Swaps Dealers Association's ("ISDA") market standard derivative legal documentation. As a result the Company is subject to the risk that a counterparty may not perform its obligations under the related contract. In accordance with the risk management process which the Manager employs, the Manager will seek to minimise such risk by only entering into transactions with counterparties which it believes to have an adequate credit rating at the time the transaction is entered into, by ensuring that formal legal agreements covering the terms of the contract are entered into in advance, and through adopting a counterparty risk framework which measures, monitors and manages counterparty risk, by the use of internal and external credit agency ratings, and evaluates derivative instrument credit risk exposure.

For Over The Counter ("OTC") derivative transactions, collateral is used to reduce the risk of both parties to the contract. Collateral is managed on a daily basis for all relevant transactions. At 31 August 2017, £5,417,000 (2016: £5,933,000) was held in cash, in a segregated collateral account on behalf of the Company, to reduce the credit risk exposure of the Company and £1,386,000 (2016: £7,365,000), was held in cash, shown as amounts held at futures clearing houses and brokers on the Balance Sheet, in a segregated collateral account on behalf of the broker, to reduce the credit risk exposure of the broker.

Credit risk

Financial instruments may be adversely affected if any of the institutions with which money is deposited suffer insolvency or other financial difficulties. All transactions are carried out with brokers that have been approved by the Manager and are settled on a delivery versus payment basis. Limits are set on the amount that may be due from any one broker and are kept under review by the Manager. Exposure to credit risk arises on unsettled security transactions and derivative instrument contracts and cash at bank.

The risks which result from the use of derivative instruments and the risk management processes employed by the Manager are set out in a documented Derivative Risk Measurement and Management Document. Derivative instruments are used by the Manager for the following purposes:

- To gain unfunded long exposure to equity markets, sectors or single stocks. Unfunded exposure is exposure gained without an initial flow of capital;
- To hedge equity market risk using derivatives with the intention of at least partially mitigating losses in the exposures of the Company's portfolio as a result of falls in the equity market;
- To enhance portfolio total return by writing short call options (covered call writing) and the selected use of other option strategies; and
- To position short exposures in the Company's portfolio. These uncovered exposures benefit from falls in the prices of shares which the Portfolio Manager believes to be over valued. These positions, therefore, distinguish themselves from other short exposures held for hedging purposes since they are expected to add risk to the portfolio.

RISK SENSITIVITY ANALYSIS

Interest rate risk sensitivity analysis

Based on the financial instruments held and interest rates at 31 August 2017, an increase of 0.25% in interest rates throughout the year, with all other variables held constant, would have decreased the return on ordinary activities after taxation for the year and decreased the net assets of the Company by £132,000 (2016: £228,000). A decrease of 0.25% in interest rates throughout the year would have had an equal but opposite effect.

Notes to the Financial Statements continued

17 Financial Instruments and Risk Management continued

Foreign currency risk sensitivity analysis

Based on the financial instruments held and currency exchange rates at 31 August 2017, a 10% strengthening of the UK sterling exchange rate against foreign currencies, with all other variables held constant, would have decreased the Company's net return on ordinary activities after taxation for the year and decreased the Company's net assets by £14,037,000 (2016: £12,110,000). A 10% weakening of the UK sterling exchange rate against foreign currencies would have increased the Company's net return on ordinary activities after taxation for the year and increased the Company's net assets by £17,156,000 (2016: £14,802,000).

Other price risk – exposure to investments sensitivity analysis

Based on the investments held and share prices at 31 August 2017, an increase of 10% in share prices, with all other variables held constant, would have increased the Company's net return on ordinary activities after taxation for the year and increased the net assets of the Company by £65,397,000 (2016: £53,910,000). A decrease of 10% in share prices would have had an equal and opposite effect.

Other price risk – net exposure to derivative instruments sensitivity analysis

Based on the derivative instruments held and share prices at 31 August 2017, an increase of 10% in the share prices underlying the derivative instruments, with all other variables held constant, would have increased the Company's net return on ordinary activities after taxation for the year and increased the net assets of the Company by £2,545,000 (2016: £8,467,000). A decrease of 10% in share prices would have had an equal and opposite effect. Details of the Company's net exposure to derivative instruments are shown in Note 18.

Fair Value of Financial Assets and Liabilities

Financial assets and liabilities are stated in the Balance Sheet at values which are not materially different to their fair values. As explained in Note 2 (k) and (l) above, investments and derivative instruments are shown at fair value. In the case of cash and cash equivalents, book value approximates to fair value due to the short maturity of the instruments.

Fair Value Hierarchy

The Company is required to disclose the fair value hierarchy that classifies its financial instruments measured at fair value at one of three levels, according to the relative reliability of the inputs used to estimate the fair values.

Classification	Input
Level 1	Valued using quoted prices in active markets for identical assets
Level 2	Valued by reference to valuation techniques using observable inputs other than quoted prices included within level 1
Level 3	Valued by reference to valuation techniques using inputs that are not based on observable market data

17 Financial Instruments and Risk Management continued

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset. The valuation techniques used by the Company are explained in Note 2 (k) and (l). The table below sets out the Company's fair value hierarchy:

Financial assets at fair value through profit or loss	level 1 £'000	level 2 £'000	level 3 £'000	2017 total £'000
Investments	**645,625**	**–**	**8,347**	**653,972**
Derivative instrument assets	**259**	**10,419**	**–**	**10,678**
	645,884	**10,419**	**8,347**	**664,650**
Financial liabilities at fair value through profit or loss				
Derivative instrument liabilities	**–**	**(9,003)**	**–**	**(9,003)**

Financial assets at fair value through profit or loss	level 1 £'000	level 2 £'000	level 3 £'000	2016 total £'000
Investments	527,418	5,818	5,860	539,096
Derivative instrument assets	–	16,169	–	16,169
	527,418	21,987	5,860	555,265
Financial liabilities at fair value through profit or loss				
Derivative instrument liabilities	(2,342)	(11,441)	–	(13,783)

The table below sets out the movements in level 3 financial instruments during the year:

	Year ended 31.08.17 level 3 £'000	Year ended 31.08.16 level 3 £'000
Beginning of the year	**5,860**	1,706
Purchases at cost	**–**	5,585
Investments written off	**(6)**	(6)
Transfers into level 3[1]	**1,599**	–
Transfers out of level 3[2]	**–**	(1,463)
Movement in investment holding gains	**894**	38
End of the year	**8,347**	5,860

1 Financial instruments are transferred into level 3 on the date they are suspended or when they have not traded for thirty days.

2 Financial instruments are transferred out of level 3 when they commence trading on an active market.

Notes to the Financial Statements continued

18 Capital Resources and Gearing

The Company does not have any externally imposed capital requirements. The capital of the Company comprises its gearing, which is managed by the use of derivative instruments, and its issued share capital and reserves as disclosed in the Balance Sheet on page 44. It is managed in accordance with the Company's investment policy in pursuit of its investment objective, both of which are detailed in the Strategic Report on pages 6 and 7. The principal risks and their management are disclosed in the Strategic Report on page 8 and in Note 17.

The Company's gross gearing and net gearing at the end of the year are shown below:

	2017			
	gross asset exposure		net asset exposure	
	£'000	%[1]	£'000	%[1]
Investments	653,972	97.1	653,972	97.1
Long CFDs	97,012	14.4	97,012	14.4
Total long exposures before hedges	750,984	111.5	750,984	111.5
Less: Index futures – hedging exposures[2]	(43,745)	(6.5)	(43,745)	(6.5)
Long exposures after the netting of hedges	707,239	105.0	707,239	105.0
Short exposures – short CFDs	27,813	4.1	(27,813)	(4.1)
Exposure after the netting of hedges	735,052	109.1	679,426	100.9
Shareholders' Funds	673,502		673,502	
		gross gearing		net gearing
Gearing[3]		9.1%		0.9%

1 Exposure to the market expressed as a percentage of Shareholders' Funds.

2 Hedging exposures reduce exposure to the market and gearing.

3 Gearing is the amount by which Asset Exposure exceeds Shareholders' Funds expressed as a percentage of Shareholders' Funds.

18 Capital Resources and Gearing continued

	2016			
	gross asset exposure		net asset exposure	
	£'000	%[1]	£'000	%[1]
Investments	539,096	93.2	539,096	93.2
Long CFDs	152,398	26.4	152,398	26.4
Total long exposures before hedges	691,494	119.6	691,494	119.6
Less: Index futures – hedging exposures[2]	(45,606)	(7.9)	(45,606)	(7.9)
Long exposures after the netting of hedges	645,888	111.7	645,888	111.7
Short exposures – short CFDs	22,127	3.8	(22,127)	(3.8)
Exposure after the netting of hedges	668,015	115.5	623,761	107.9
Shareholders' Funds	578,291		578,291	

	gross gearing	net gearing
Gearing[3]	15.5%	7.9%

1 Exposure to the market expressed as a percentage of Shareholders' Funds.

2 Hedging exposures reduce exposure to the market and gearing.

3 Gearing is the amount by which Asset Exposure exceeds Shareholders' Funds expressed as a percentage of Shareholders' Funds.

19 Transactions with the Manager and Related Parties

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management and the role of company secretary to FIL Investments International ("FII"). Both companies are Fidelity group companies. Details of the fee arrangements are given in the Directors' Report on page 24 and in Note 4. During the year, fees for portfolio management services of £5,476,000 (2016: £4,586,000) and fees for non-portfolio management services of £600,000 (2016: £600,000) were payable to FII. Non-portfolio management fees include company secretarial, fund accounting, taxation, promotional and corporate advisory services. At the Balance Sheet date, fees for portfolio management services of £967,000 (2016: £810,000) and fees for non-portfolio management services of £100,000 (2016: £100,000) were accrued and included in other creditors. FII also provides the Company with marketing services. The total amount payable for these services during the year was £128,000 (2016: £155,000). At the Balance Sheet date £25,000 (2016: £63,000) for marketing services was accrued and included in other creditors.

Disclosures of the Directors' interests in the ordinary shares of the Company and Directors' fees and taxable benefits relating to reasonable travel expenses are given in the Directors' Remuneration Report on pages 32 and 33. The Directors received compensation of £145,000 (2016: £187,000). In addition to the fees and taxable benefits disclosed in the Directors' Remuneration Report, this amount includes £14,000 (2016: £18,000) of Employers' National Insurance Contributions paid by the Company.

Financial Calendar

The key dates in the Company's calendar are:

31 August 2017 – Financial Year End
2 November 2017 – Announcement of results for the year ended 31 August 2017
11 December 2017 – Annual General Meeting
9 January 2018 – Payment of Final Dividend
28 February 2018 – Half-Year End
April 2018 – Announcement of results for the Half-Year ending 28 February 2018
June 2018 – Payment of Interim Dividend

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Fidelity Special Values PLC will be held at **25 Cannon Street, London EC4M 5TA** on 11 December 2017 at 11.30 am for the following purposes:

1. To receive and adopt the Annual Report and Financial Statements for the year ended 31 August 2017.
2. To declare that a final dividend for the year ended 31 August 2017 of 2.80 pence per ordinary share be paid to Shareholders on the register as at close of business on 8 December 2017.
3. To re-elect Mr Andy Irvine as a Director.
4. To re-elect Mrs Sharon Brown as a Director.
5. To re-elect Mr Dean Buckley as a Director.
6. To re-elect Mr Nigel Foster as a Director.
7. To re-elect Ms Nicky McCabe as a Director.
8. To approve the Directors' Remuneration Report (excluding the section headed The Remuneration Policy set out on page 31) for the year ended 31 August 2017.
9. To approve the Remuneration Policy as stated in the Directors' Remuneration Report on page 31.
10. To reappoint Ernst & Young LLP as Auditor of the Company to hold office until the conclusion of the next general meeting at which financial statements are laid before the Company.
11. To authorise the Directors to determine the Auditor's remuneration.

To consider and, if thought fit, pass the following special business resolutions of which Resolution 12 will be proposed as an ordinary resolution and Resolutions 13 and 14 as special resolutions.

Authority to allot shares and disapply of pre-emption rights

Resolutions 12 and 13 will, if approved, authorise the Directors to allot a limited number of new ordinary shares (or to sell any ordinary shares which the Company elects to hold in Treasury) for cash without first offering such shares to existing ordinary Shareholders pro rata to their existing holdings. The limit set by the Board is 10% of the number of ordinary shares of the Company (including Treasury shares) in issue on 1 November 2017. The Directors will only issue new ordinary shares, or dispose of ordinary shares held in Treasury, under this authority in order 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. Any ordinary shares held in Treasury would be re-issued at no less than net asset value ("NAV") per share or at a premium to NAV per share. This would ensure that the net effect of repurchasing and then re-issuing the ordinary shares would enhance NAV per share.

12. THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company ("relevant securities") up to an aggregate nominal amount of £1,353,222 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company (including Treasury shares) as at 1 November 2017) and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with Treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter, such authority to expire at the conclusion of the next Annual General Meeting ("AGM") 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. All previous unexpired authorities are revoked, but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

13. THAT, subject to the passing of Resolution 12, set out above, the Directors be and they are hereby authorised, pursuant to Sections 570-573 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the authority given by the said Resolution 12 and/or to sell ordinary shares held by the Company as Treasury shares for cash, as if Section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited:

    a) to the allotment of equity securities or sale of Treasury shares up to an aggregate nominal amount of £1,353,222 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company (including Treasury shares) as at 1 November 2017); and

    b) by the condition that allotments of equity securities or sales of Treasury shares may only be made pursuant to this authority at a price of not less than the NAV per share,

    and this power shall expire at the conclusion of the next AGM 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.

Notice of Meeting continued

Authority to repurchase shares

Resolution 14 is a special resolution which, if approved, will renew the Company's authority to purchase up to 14.99% of the number of ordinary shares in issue (excluding Treasury shares) on 1 November 2017 either for immediate cancellation or for retention as Treasury shares, at the determination of the Board. Once shares are held In Treasury, the Directors may only dispose of them in accordance with the relevant legislation by subsequently selling the shares for cash or cancelling the shares. Purchases of ordinary shares will be 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 NAV per share, thereby resulting in an increased NAV per share.

14. THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 5 pence each ("the shares") in the capital of the Company provided that:

    a) the maximum number of shares hereby authorised to be purchased shall be 39,648,472;

    b) the minimum price which may be paid for a share is 5 pence;

    c) the maximum price which may be paid for each share is the higher of:

        i) 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; and

        ii) the amount stipulated by Regulatory Technical Standards adopted by the European Commission pursuant to Article 5(6) of the Market Abuse Regulation (EU) No. 596/2014;

    d) the authority hereby conferred shall expire at the conclusion of the next AGM 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
FIL Investments International
Secretary
1 November 2017

Notes:

1. A member of the Company entitled to attend and vote at the AGM convened by the above Notice is entitled to appoint one or more proxies to exercise all or any of the rights of the member to attend and speak and vote in his place. A member may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company.

2. A Form of Proxy is enclosed and must be returned to the Registrars at the address on the form to arrive not later than 11.30 am on 7 December 2017. 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 Registrar, Capita Asset Services, PXS1, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4ZF 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. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 by 11.30 am on 7 December 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and systems timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. In any case your proxy form must be received by the Company's Registrar no later than 11.30 am on 7 December 2017.

6. All members are entitled to attend and vote at the AGM and ask questions. The right to vote at the meeting will be determined by reference to the Register of Members as at close of business on 7 December 2017.

7. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him and the member by whom he was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in Note 1 above does not apply to Nominated Persons. The right described in that paragraph can only be exercised by members of the Company.

8. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes which are the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Conduct Authority. As a result, any member holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make separate notification to the Company and the Financial Conduct Authority.

9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that to be entitled to attend and vote at the AGM (and for the purpose of determining the number of votes they may cast), members must be entered on the Register of Members by close of business on 7 December 2017. If the meeting is adjourned then, to be so entitled, members must be entered on the Register of Members by close of business on the day two days before the time fixed for the adjourned meeting, or, if the Company gives notice of the adjourned meeting, at any other time specified in that notice.

10. As at 1 November 2017 (the latest practicable date prior to the publication of this document) the Company's issued share capital consisted of 270,644,480 ordinary shares (including Treasury Shares). The number of Treasury shares held by the Company was 6,145,000. Therefore, the total number of shares with voting rights in the Company as at 1 November 2017 was 264,499,480.

11. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

12. Shareholders and any proxies or representatives they appoint understand that by attending the meeting they are expressly agreeing that they are willing to receive any communications, including communications relating to the Company's securities, made at the meeting.

13. It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on its website a statement setting out any matter relating to the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that is to be laid before the AGM or any circumstance connected with an Auditor of the Company ceasing to hold office since the previous meeting at which the Annual Report and Financial Statements were laid. The Company may not require the Shareholders requesting any such website publication to pay its expenses in complying with such requests. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's Auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on its website.

14. No Director has a service contract with the Company.

15. A copy of this notice and other information required by Section 311A of the Companies Act 2006 is published on the Company's website at **www.fidelityinvestmenttrusts.com**.

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

Shareholder Information

Investing in Fidelity Special Values PLC

Fidelity Special Values PLC is a company listed on the London Stock Exchange and you can buy its shares through a stockbroker, share shop or bank. Fidelity also offers a range of options, so that you can invest in the way that is best for you. Details of how to invest can be found on Fidelity's website at **www.fidelityinvestmenttrusts.com**

Contact Information

Shareholders and Fidelity Platform Investors should contact the appropriate administrator using the contact details given below and in the next column. Links to the websites of major platforms can be found online at **www.fidelityinvestmenttrusts.com**

Shareholders on the main share register

Contact Capita Asset Services, Registrar to Fidelity Special Values PLC, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Telephone: **0871 664 0300** (calls cost 12p per minute plus network extras. If you are outside the United Kingdom, call **+44 371 664 0300**. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9.00 am to 5.30 pm Monday to Friday, excluding public holidays in England and Wales).

Email: **shareholderenquiries@capita.co.uk**

Details of individual shareholdings and other information can also be obtained online from the Registrar's Share Portal at **www.signalshares.com**. Shareholders are able to manage their shareholding online by registering for the Share Portal, a free and secure online access service. Facilities include:

Account Enquiry – Shareholders can access their personal shareholding, including share transaction history, dividend payment history and obtain an up-to-date shareholding valuation.

Amendment of Standing Data – Shareholders can change their registered postal address and add, change or delete dividend mandate instructions. Shareholders can also download forms such as change of address, stock transfer and dividend mandate forms as well as buy and sell shares in the Company.

Should you have any queries in respect of the Capita Share Portal, contact the helpline on **0871 664 0300** (calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call **+44 371 664 0300**. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9.00 am to 5.30 pm, Monday to Friday excluding public holidays in England and Wales).

Capita share dealing services

Capita Asset Services offer a low cost share dealing service to buy or sell shares. Further information is available at **www.capitadeal.com**, or by telephoning **0371 664 0445** (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 8.00 am to 4.30 pm, Monday to Friday excluding public holidays in England and Wales). The Capita Share Dealing Services allows you to deal in the shares of other companies for which Capita Asset Services acts as Registrar, provided you are already a shareholder in the relevant company, and that company offers the Share Deal facility to its shareholders.

Dividend Reinvestment Plan

Capita Asset Services offers a Dividend Re-investment Plan which is a convenient way for Shareholders to build up their shareholding by using their dividend money to purchase additional shares in the Company. The Plan is provided by Capita Asset Services, a trading name of Capita IRG Trustees Limited which is authorised and regulated by the Financial Conduct Authority. For more information and an application pack call **0371 664 0381** between 9.00 am and 5.30 pm Monday to Friday. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Alternatively you can email: **shares@capita.co.uk** or log on to **www.signalshares.com**.

Fidelity Platform Investors

Contact Fidelity, using the freephone numbers given below, or by writing to: UK Customer Service, Fidelity International, Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge, Kent TN11 9DZ. Website: **www.fidelity.co.uk/its**.

Private investors: call free on **0800 41 41 10**, 9.00 am to 6.00 pm, Monday to Saturday.

Financial advisers: call free on **0800 41 41 81**, 8.00 am to 6.00 pm, Monday to Friday.

General enquiries

General enquiries should be made to the Secretary, at the Company's registered office: FIL Investments International, Investment Trusts, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Telephone: **01732 361144**

Email: **investmenttrusts@fil.com**

Website: **www.fidelityinvestmenttrusts.com**

If you hold Fidelity Special Values PLC shares in an account provided by Fidelity International, you will receive a report every six months detailing all of your transactions and the value of your shares.

ShareGift

You may donate your shares to charity free of charge through ShareGift. Further details are available at **www.sharegift.org.uk** or by telephoning **020 7930 3737**.

Managers and Advisors

Alternative Investment Fund Manager (AIFM/the Manager)
FIL Investment Services (UK) Limited
Oakhill House
130 Tonbridge Road
Hildenborough
Tonbridge
Kent
TN11 9DZ

Portfolio Manager, Secretary and Registered Office
FIL Investments International
Beech Gate
Millfield Lane
Lower Kingswood
Tadworth
Surrey
KT20 6RP
Email: **investmenttrusts@fil.com**

Independent Auditor
Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Lawyer
Dickson Minto W.S.
Broadgate Tower
20 Primrose Street
London
EC2A 2EW

Banker and Custodian
JPMorgan Chase Bank (London Branch)
125 London Wall
London
EC2Y 5AJ

Depositary
J.P. Morgan Europe Limited
25 Bank Street
London
E14 5JP

Financial Adviser and Stockbroker
Cenkos Securities plc
6,7,8 Tokenhouse Yard
London
EC2R 7AS

Registrar
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Company Information

The Company was launched on 17 November 1994. The original subscription price was £1 for each ordinary share of 25 pence each. Following the sub-division of ordinary shares on a five for one basis on 29 June 2015, the Company's share capital now comprises ordinary shares of 5 pence each and the restated original subscription price is 20 pence for each ordinary share.

The Company is a member of The Association of Investment Companies ("AIC") from whom general information on investment trusts can be obtained by telephoning **020 7282 5555** (email: **enquiries@theaic.co.uk**).

Price Information

The mid-market price of the ordinary shares is published daily in The Financial Times under the heading "Investment Companies". The ordinary share price is also published in the Times, The Daily Telegraph and The Independent. You can also obtain current price information by telephoning Fidelity on **0800 41 41 10** (freephone) or FT Cityline on **0905 817 1690** (voice activated service) (calls charged at 60p per minute on a per second basis from a BT landline. Charges from other telephone networks may vary). The Reuters code for Fidelity Special Values PLC is FSV.L, the SEDOL is BWXC7Y9 and the ISIN is GB00BWXC7Y93.

Net Asset Value ("NAV") Information

The NAV of the Company is calculated and released to the London Stock Exchange on a daily basis.

UK Capital Gains Tax

All UK individuals under present legislation are permitted to have £11,300 of capital gains in the current tax year 2017/2018 (2016/2017: £11,100) before being liable for capital gains tax. Capital gains tax is charged at 10% and 20% dependent on the total amount of taxable income.

Alternative Investment Fund Manager's Disclosure

In compliance with the Alternative Investment Fund Managers Directive ("AIFMD"), the Board has appointed FIL Investment Services (UK) Limited ("FISL") (a Fidelity group company) as the Company's Alternative Investment Fund Manager ("AIFM"). FISL has delegated the portfolio management and company secretarial function to FIL Investments International (another Fidelity group company). Details of the Management Agreement can be found in the Directors' Report on page 24.

The table below discloses information required by the Alternative Investment Fund Managers Regulations 2013.

Function	AIFM Role and Responsibility	AIFMD Disclosure
Investment management	The AIFM provides portfolio management of assets and investment advice in relation to the assets of the Company. It has delegated this function to FIL Investments International. The Board remains responsible for setting the investment strategy, investment policy and investment guidelines and the AIFM operates within these guidelines.	Details of the Company's investment objective, strategy and investment policy, including limits, are on pages 6 and 7.
Risk management	The AIFM has a responsibility for risk management for the Company which is in addition to the Board's corporate governance responsibility for risk management. The Company has a Risk Management Process Document which is agreed with the Board and demonstrates that risk management is separated functionally and hierarchically from operating units and demonstrates independence safeguards. The Manager maintains adequate risk management systems in order to identify, measure and monitor all risks at least annually under AIFMD. The Manager is responsible for the implementation of various risk activities such as risk systems, risk profile, risk limits and testing. The Board, as part of UK corporate governance, remains responsible for the identification of significant risks and for the ongoing review of the Company's risk management and internal control processes.	The AIFM has an ongoing process for identifying, evaluating and managing the principal risks faced by the Company and this is regularly reviewed by the Board. The Board remains responsible for the Company's system of internal control and for reviewing its effectiveness. Further details can be found in the Strategic Report on page 8 and in Note 17 to the Financial Statements on pages 56 to 61.
Valuation of illiquid assets	The Directive requires the disclosure of the percentage of the Alternative Investment Fund's assets which are subject to special arrangements arising from their illiquid nature and any new arrangements for managing the liquidity of the Company.	Not Applicable.
Leverage	The Company uses leverage to increase its exposure primarily to UK-listed companies and currently holds derivative instruments. The AIFM has set maximum levels of leverage that are reasonable. It has implemented systems to calculate and monitor compliance against these limits and has ensured that the limits have been complied with at all times. There are two methods of calculating leverage – the Gross Method which does not reduce exposure for hedging; and the Commitment Method which does reduce exposure for hedging.	The maximum leverage limits are 1.80 for the Gross Method of calculating leverage and 1.50 for the Commitment Method. At 31 August 2017, actual leverage was 1.22 for the Gross Method and 1.11 for the Commitment Method.
Liquidity management	The AIFM, in consultation with the Board, maintains a liquidity management policy which is considered at least annually.	No new arrangements for managing the liquidity of the Company have been made. Further details can be found in Note 17 on page 58.
Remuneration of the AIFM	The AIFM operates under the terms of Fidelity International's Global Remuneration Policy. This ensures that the AIFM complies with the requirements of the FCA's Remuneration Code (SYSC19A); the AIFM Remuneration Code (SYSC19B) and the BIPRU Remuneration Code (SYSC19C).	Details of Fidelity International's Global Remuneration Policy can be found at www.fidelityinternational.com/global/remuneration/default.page.

EU Securities Financing Transactions Regulations ('SFTR')

The following disclosures relate to the contracts for difference ("CFDs") held by the Company which may be considered Total Return Swaps under the SFTR, which came into force on 12 January 2016. For the year ended 31 August 2017, the total return from CFDs was a profit of £3,720,000. CFDs were contracted bilaterally with Deutsche Bank AG ("DB"), HSBC Bank plc ("HSBC") and UBS AG ("UBS") and had an open maturity. At 31 August 2017, the fair value of CFDs was £1,416,000 (0.2% of net assets) comprising: DB £1,114,000; HSBC (£203,000) and UBS £505,000. Collateral from UBS of £5,417,000 was held in cash in a segregated account on behalf of the Company.

Glossary of Terms

AIF
Alternative Investment Fund. The Company is an AIF.

AIFM
Alternative Investment Fund Manager. The Board has appointed FIL Investment Services (UK) Limited to act as the Company's AIFM/the manager.

AIFMD
The Alternative Investment Fund Managers Directive ("AIFMD") is a European Union Directive implemented on 22 July 2014.

Benchmark Index
FTSE All-Share Index against which the performance of the Company is measured.

Capital Gains Tax (CGT)
The tax which you may have to pay if you sell your shares at a profit.

Collateral
Asset provided as security for the unrealised gain or loss under a contract for difference.

Contract for Difference (CFD)
A contract for difference is a derivative. It is a contract between the Company and an investment house at the end of which the parties exchange the difference between the opening price and the closing price of the underlying asset of the specified financial instrument. It does not involve the Company buying or selling the underlying asset, only agreeing to receive or pay the movement in its share price. A contract for difference allows the Company to gain access to the movement in the share price by depositing a small amount of cash known as margin. The Company may reason that the asset price will rise, by buying ("long" position) or fall, by selling ("short" position). If the Company trades long, dividends are received and interest is paid. If the Company trades short, dividends are paid and interest is received.

Corporation Tax
The tax the Company may have to pay on its profits for a year. Investment trust companies are exempt from corporation tax on their capital gains and do not pay tax on any UK dividends. As they can offset expenses against any taxable income, most investment trusts do not pay corporation tax and are therefore tax efficient for the Company.

Derivatives
Financial instruments (such as futures, options and contracts for difference) whose value is derived from the value of an underlying asset.

Discount
If the share price of the Company is lower than the net asset value per share, the Company is said to be trading at a discount. The discount is shown as a percentage of the net asset value. The opposite of a discount is a premium.

Fair Value
The fair value is the best estimate of the value of the investments, including derivatives, at a point in time and this is measured as:

- **Listed and AIM quoted investments** – valued at bid prices or last market prices where available, otherwise at published price quotations;
- **Unlisted investments** – valued using an appropriate valuation technique in the absence of an active market;
- **Futures and options** – valued at the quoted trade price for the contract; and
- **Contracts for difference** – valued as the difference between the settlement price and the value of the underlying shares in the contract (unrealised gains or losses).

Futures
An agreement to buy or sell a fixed amount of an asset at a fixed future date and a fixed price.

Gearing
Gearing describes the level of the Company's exposure and is expressed as a percentage of Shareholders' funds. It reflects the amount of exposure the Company uses to invest in the market. It can be obtained through the use of bank loans, bank overdrafts and derivatives, in order to increase the Company's exposure to market price movements. The Company uses two key measures of gearing:

- **Gross gearing** is the total of all long exposures, plus short exposures and less exposures hedging the portfolio, expressed as a percentage of Shareholders' funds.
- **Net gearing** is the total of all long exposures, less short exposures and less exposures hedging the portfolio, expressed as a percentage of Shareholders' funds.

Gross Asset Exposure
Gross Asset Exposure measures the exposure to market price movements as a result of owning shares, derivatives and fixed-interest securities.

Hedging
A strategy aimed at minimising or eliminating the risk or loss through adverse movements, normally involving taking a position in a derivative such as a future or an option.

Glossary of Terms continued

Net Asset Value (NAV)

Net asset value is sometimes also described as "Shareholders' funds", and represents the total value of the Company's assets less the total value of its liabilities. For valuation purposes it is common to express the net asset value on a per share basis.

Ongoing Charges

Total operating expenses (excluding finance costs and taxation) incurred by the Company as a percentage of the average daily net asset values for the reporting year.

Options

An option is a contract which gives the right but not the obligation to buy or sell an underlying asset at an agreed price on or before an agreed date. Options may be calls (buy) or puts (sell) and are used to gain or reduce exposure to the underlying asset on a conditional basis, for example, the purchase of a call option provides exposure to the upside potential of an underlying stock, with the downside risk being limited to the premium paid.

Pre-Emption Rights

Section 561 of the Companies Act 2006 provides that a company offering a new issue of shares must first make an offer of these shares, on the same or more favourable terms, in proportion to the nominal value held by existing Shareholders. At each annual general meeting, the Board seeks Shareholder approval to disapply pre-emption right provisions, up to 10% of issued share capital.

Premium

If the share price of the Company is higher than the net asset value per share, the Company is said to be trading at a premium. The premium is shown as a percentage of the net asset value. The opposite of a premium is a discount.

Return

The return generated in a given period from the investments:

- **Revenue Return** reflects the dividends and interest from investments and other income net of expenses, finance costs and taxation;
- **Capital Return** reflects the return on capital, excluding any revenue return; and
- **Total Return** reflects the aggregate of revenue and capital return.

Shareholders' Funds

Shareholders' funds are also described as "net asset value" and represent the total value of the Company's assets less the total value of its liabilities.

Total Return Performance

The return on the share price or net asset value per share taking into account the rise and fall of share prices and the dividends paid to Shareholders. Any dividends received by the Shareholder are assumed to have been reinvested for additional shares (for share price total return) or in the Company's assets (for net asset value total return).

Treasury Shares

Ordinary shares of the Company that have been repurchased by the Company and not cancelled but held in Treasury. These shares do not pay dividends, have no voting rights and are excluded from the net asset value per share calculation.

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