

## Fidelity European Values PLC

Half-Yearly Results for the 6 months ended 30 June 2016 (unaudited)

### Financial Highlights:

- Fidelity European Values PLC NAV outperforms its Benchmark Index by 2.8% over the six months to 30 June 2016.
- The discount widened resulting in a share price total return of -3.8%.
- Shareholders' funds increased by 5.6% to £802.6m over the six month reporting period
- Gearing was 4.1% and the Portfolio Manager remains cautious

*The Company's NAV rose more than the Benchmark Index over the period largely due to stock-picking but also partly due to a cautious positioning into the "Brexit" referendum. **Sam Morse, Portfolio Manager***

*It is corporate profitability and real dividend growth that will drive stock prices and the recent volatility is bound to throw up some stock-picking opportunities, perhaps, for instance, in sectors like financials where it seems as if 'the baby is being thrown out with the bath water'. **Sam Morse, Portfolio Manager***

### Contacts

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FIL Investments International

# Half-Yearly Report

## PERFORMANCE

During the six months ended 30 June 2016, the net asset value (“NAV”) total return was 7.6% compared to a total return of 4.8% for the FTSE World Europe (ex UK) Index which is the Company’s Benchmark Index. The share price total return was -3.8%, which is behind the NAV total return as a consequence of a significant widening in the share price discount to NAV (all figures in UK sterling).

## MARKET REVIEW

The year began in a very negative mood with industrials, commodity-related sectors, autos and banks all falling heavily on concerns about Chinese, and therefore global, economic growth while defensive sectors outperformed. This all reversed from mid-February in a V-shaped fashion, led by the oil price and many sectors (except the banks) which had, hitherto, led the market down, as evidence appeared suggesting that Chinese officials would introduce some modest measures to re-stimulate the economy.

The banking sector, however, continued to suffer from concerns that the European Central Bank’s expanded actions would pressure operating income. More specifically, share prices of Italian banks fell on concerns that addressing their growing burden of non-performing loans would lead to systemic risks. Apart from banks, pharmaceuticals were also weak during the first quarter as it became increasingly clear that Hillary Clinton, who has led the rhetoric against drug pricing, would become the Democrat candidate for the Presidency of the United States of America.

The second quarter witnessed a gradual recovery in stock prices until the UK voted to leave the European Union. This came as a shock to markets and in the two days subsequent to the referendum, continental European stock markets fell sharply. Financials bore the brunt of the selling with many bank shares falling by twenty to thirty percent. Markets recouped some of their losses in the final week of the quarter, perhaps partly encouraged by a market-friendly election result in Spain, but interestingly, defensives led the market higher in the bounce, rather than the sectors, such as financials and autos, which had been hit hardest in the initial shock.

In summary, in local currency terms, it has been a disappointing period for investors. However, the NAV has risen due to the depreciation of sterling.

## PORTFOLIO MANAGER’S REPORT

The Company’s NAV rose more than the Benchmark Index over the period largely due to stock-picking but also partly due to a cautious positioning into the “Brexit” referendum.

Over the period, the main positive contributor was Royal Dutch Shell which benefited from a higher oil price and a positive reaction to its strategy update, in which management committed to further reductions in operating costs and capital expenditure to enable the company to achieve higher levels of cash generation.

Other strong performers included L’Oreal, where strong first quarter results suggested that organic growth will accelerate again, and the 3i Group which upgraded its valuation of its key asset, the European discount retailer Action, following a period of strong operating performance.

The main detractors, over the six month period, were the Company’s holdings in the financial sector, which accounted for seven of the top ten losers. The impact of the ‘Brexit’ vote on capital markets and the expectation that interest rates will stay “lower for longer” has pressured banks like Intesa, UBS and ABN while GAM suffered from a profit warning, largely related to a lack of performance fees. While the operating environment for these financial companies has worsened, valuations have also fallen very substantially such that some of these companies are now looking quite attractive on long term valuation measures. The capital and liquidity position of European banks is much improved since the global financial crisis so, in many cases, these companies will be able to continue to pay attractive dividends and will not need to raise new equity, even in a more difficult environment.

Among non-financial holdings, SES, the satellite provider, saw its share price struggle when it raised equity to buy out the minorities in a loss-making subsidiary, O3B, just after its peer Eutelsat had issued a profit warning. We remain confident that O3B will, ultimately, prove a valuable investment for the company, which is not reflected in the current valuation.

## GEARING

The Company continues to gear through the use of long Contracts For Difference (“CFDs”). As at 30 June 2016, the level of gearing was 4.1%. In the six month period, gearing made a positive contribution to performance. The Board monitors the level of gearing and the use of derivative instruments carefully and has set a risk control framework for this purpose.

## DISCOUNT MANAGEMENT AND TREASURY SHARES

The Board continues to adopt an active discount management policy. Whilst the primary purpose of our policy is to reduce share price volatility in relation to NAV, buying in shares at a discount

also results in an enhancement to the NAV per share. In order to assist in managing the discount, the Board has shareholder approval to hold in Treasury ordinary shares repurchased by the Company, rather than cancelling them. These shares are then available for re-issue at a premium to NAV per share, facilitating the management of and enhancing liquidity in the Company's shares. No more than 5% of the issued ordinary share capital of the Company can be held in Treasury. Treasury shares carry no voting rights or rights to receive a dividend and have no entitlement in a winding up of the Company.

In the period under review, 339,736 shares were repurchased into Treasury. The level of discount has widened from 2.9% at the start of the reporting period to 13.1% at the end of the reporting period, based on the NAV excluding income. This widening of the discount has given rise to a share price total return of -3.8% for the six months ending 30 June 2016, lagging the NAV total return of 7.6%.

Since the end of the reporting period, a further 365,300 ordinary shares have been repurchased into Treasury. In total, and as at the date of this report, 0.17% of the issued share capital of the Company was held in Treasury.

#### **BOARD CHANGES**

As stated in the Annual Report for the year ending 31 December 2015, Mr Humphrey van der Klugt retired from the Board at the conclusion of the Annual General Meeting on 12 May 2016. He was succeeded as Chairman by Mr Vivian Bazalgette.

#### **OUTLOOK**

Market returns, in the last few years since the global financial crisis, have largely been driven by rising valuations. This has resulted in the valuation of continental European stock markets being above the average of the past thirty years. This level of valuation leaves the market vulnerable to a shock like the 'Brexit' vote. Although the direct exposure of continental European companies to the UK economy is relatively low at about six to seven percent of sales and profits, the knock-on impact, in terms of uncertainty and the risk of a domino effect threatening the integrity of the European Union, will likely pressure markets in the short term.

The re-run of the Austrian presidential election, in late September, and the Italian constitutional referendum, in October, may both cause further upset. Central banks will react, as shock absorbers, to try to stabilise markets and support economies and there may be some fiscal response, too, from governments, although the room for manoeuvre in much of Europe is limited by large budget deficits and high levels of government debt. Much will depend on the continuing health of economies outside Europe.

Ultimately, however, it is corporate profitability and real dividend growth that will drive stock prices and the recent volatility is bound to throw up some stock-picking opportunities, perhaps, for instance, in sectors like financials where it seems as if 'the baby is being thrown out with the bath water'. Your Portfolio Manager remains cautious, which is reflected in a 'lower than normal' level of gearing (4.1% at the end of the period), and remains focused on attractively-valued companies, with strong balance sheets, which can deliver consistent dividend growth, even in a more difficult environment.

**By order of the Board**

**FIL Investments International**

2 August 2016

## **Disclosures**

The Company is required to make the following disclosures in its Half-Yearly Report:

### **PRINCIPAL RISKS AND UNCERTAINTIES**

The Board, with the assistance of the Manager, has developed a risk matrix which, as part of the risk management and internal control process, identifies the key risks that the Company faces. The Board believes that the principal risks and uncertainties faced by the Company continue to fall into the following categories: market risk; performance risk; income/dividend risk; discount control risk; gearing risk; derivative risks; tax and regulatory risks; and operational risks. Information on each of these risks can be found in the Strategic Report section of the Annual Report for the year ended 31 December 2015. These risks and uncertainties have not materially changed during the six months to 30 June 2016 and are equally applicable to the remaining six months of the Company's financial year.

### **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 to FIL Investments International. The transactions with the Manager and related party transactions with the Directors are disclosed in Note 12.

### **GOING CONCERN**

The Board receives regular reports from the Manager and the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements as outlined in the Annual Report for the year ended 31 December 2015. The next continuation vote will be put to shareholders at the Annual General Meeting in 2017.

### **DIRECTORS' RESPONSIBILITY STATEMENT**

The Disclosure and Transparency Rules ("DTR") of the UK Listing Authority require the Directors to confirm their responsibilities in relation to the preparation and publication of the Interim Management Report and Financial Statements.

The Directors confirm to the best of their knowledge that:

- a) the condensed set of financial statements contained within the Half-Yearly Report has been prepared in accordance with the Financial Reporting Council's Standard, FRS 104: Interim Financial Reporting; and
- b) the Interim Management Report (which incorporates the Half-Yearly Report) includes a fair review of the information required by DTR 4.2.7R and 4.2.8R.

The Half-Yearly Financial Report has not been audited or reviewed by the Company's Independent Auditor.

The Half-Yearly Financial Report was approved by the Board on 2 August 2016 and the above responsibility statement was signed on its behalf by Mr Vivian Bazalgette, Chairman.

## Condensed Income Statement

		six months ended 30 June 2016 unaudited			for the six months ended 30 June 2015 unaudited			for the year ended 31 December 2015 audited		
	Notes	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Gains on investments at fair value through profit or loss		–	41,199	41,199	–	23,043	23,043	–	33,342	33,342
(Losses)/gains on derivative instruments at fair value through profit or loss		–	(1,895)	(1,895)	–	8,748	8,748	–	3,420	3,420
Income	4	21,962	–	21,962	18,758	–	18,758	22,988	–	22,988
Investment management fees	5	(3,262)	–	(3,262)	(3,239)	–	(3,239)	(6,344)	–	(6,344)
Other expenses		(423)	–	(423)	(441)	–	(441)	(885)	–	(885)
Exchange (losses)/gains on other net assets		(8)	64	56	(13)	(136)	(149)	(12)	(313)	(325)
<b>Net return before finance costs and taxation</b>		<b>18,269</b>	<b>39,368</b>	<b>57,637</b>	15,065	31,655	46,720	15,747	36,449	52,196
Finance costs		–	–	–	(314)	–	(314)	(339)	–	(339)
<b>Net return on ordinary activities before taxation</b>		<b>18,269</b>	<b>39,368</b>	<b>57,637</b>	14,751	31,655	46,406	15,408	36,449	51,857
Taxation on return on ordinary activities	6	(915)	–	(915)	(1,196)	–	(1,196)	(1,371)	–	(1,371)
<b>Net return on ordinary activities after taxation for the period</b>		<b>17,354</b>	<b>39,368</b>	<b>56,722</b>	13,555	31,655	45,210	14,037	36,449	50,486
<b>Return per ordinary share</b>	7	<b>4.17p</b>	<b>9.46p</b>	<b>13.63p</b>	3.25p	7.60p	10.85p	3.37p	8.75p	12.12p

There are no gains and losses other than those reported in this Condensed Income Statement, the net return after taxation is also the total comprehensive income for the period.  
The total column of this statement is the profit and loss account of the Company.  
All revenue and capital items in this statement derive from continuing operations.  
No operations were acquired or discontinued in the period.

## Condensed Statement of Changes in Equity

	Notes	share capital £'000	share premium account £'000	Capital re- demption reserve £'000	capital reserve £'000	revenue reserve £'000	total equity £'000
<b>Six months ended 30 June 2016 (unaudited)</b>							
<b>Balance at 1 January 2016</b>		10,411	58,615	5,414	664,735	21,129	760,304
Net return on ordinary activities after taxation for the period		–	–	–	39,368	17,354	56,722
Dividend paid to shareholders	8	–	–	–	–	(13,868)	(13,868)
Repurchase of ordinary shares	10	–	–	–	(547)	–	(547)
<b>Balance at 30 June 2016</b>		10,411	58,615	5,414	703,556	24,615	802,611
<b>Six months ended 30 June 2015 (unaudited)</b>							
<b>Balance at 1 January 2015</b>		10,411	58,615	5,414	628,286	22,251	724,977
Net return on ordinary activities after taxation for the period		–	–	–	31,655	13,555	45,210
Dividend paid to shareholders	8	–	–	–	–	(15,159)	(15,159)
<b>Balance at 30 June 2015</b>		10,411	58,615	5,414	659,941	20,647	755,028
<b>Year ended 31 December 2015 (audited)</b>							
<b>Balance at 1 January 2015</b>		10,411	58,615	5,414	628,286	22,251	724,977
Net return on ordinary activities after taxation for the year		–	–	–	36,449	14,037	50,486
Dividend paid to shareholders	8	–	–	–	–	(15,159)	(15,159)
<b>Balance at 31 December 2015</b>		10,411	58,615	5,414	664,735	21,129	760,304

## Condensed Balance Sheet

Company No. 2638812

	Notes	30 June 2016 unaudited £'000	30 June 2015 unaudited £'000	31 December 2015 audited £'000
<b>Fixed assets</b>				
Investments at fair value through profit or loss	9	<u>792,106</u>	<u>731,007</u>	<u>746,648</u>
<b>Current assets</b>				
Derivative assets at fair value through profit or loss	9	271	7,689	61
Debtors		5,566	5,036	2,670
Amounts held in margin accounts		2,901	–	3
Fidelity Institutional Liquidity Fund plc		937	9,129	8,800
Cash at bank		4,373	4,107	4,080
		<u>14,048</u>	<u>25,961</u>	<u>15,614</u>
<b>Creditors</b>				
Derivative liabilities at fair value through profit or loss	9	(1,488)	–	(83)
Creditors		(2,055)	(1,940)	(1,875)
		<u>(3,543)</u>	<u>(1,940)</u>	<u>(1,958)</u>
<b>Net current assets</b>		<u>10,505</u>	<u>24,021</u>	<u>13,656</u>
<b>Total net assets</b>		<u>802,611</u>	<u>755,028</u>	<u>760,304</u>
<b>Capital and reserves</b>				
Share capital	10	10,411	10,411	10,411
Share premium account		58,615	58,615	58,615
Capital redemption reserve		5,414	5,414	5,414
Capital reserve		703,556	659,941	664,735
Revenue reserve		24,615	20,647	21,129
<b>Total equity shareholders' funds</b>		<u>802,611</u>	<u>755,028</u>	<u>760,304</u>
<b>Net asset value per ordinary share</b>	11	<u>192.89p</u>	<u>181.30p</u>	<u>182.57p</u>

## Notes to the Condensed Financial Statements

### 1 PRINCIPAL ACTIVITY

The principal activity of the Company is that of an investment trust company within the meaning of Section 1158 of the Corporation Tax Act 2010.

### 2 RESULTS

The Condensed Financial Statements in this Half-Yearly Financial Report have not been audited by the Company's Auditor and do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006 (the "Act"). The financial information for the year ended 31 December 2015 is extracted from the latest published Financial Statements of the Company. Those Financial Statements have been delivered to the Registrar of Companies and included the Independent Auditor's Report which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Act.

### 3 ACCOUNTING POLICIES

The Condensed Half-Yearly Financial Statements have been prepared using the same accounting policies as set out in the Company's Annual Report and Financial Statements for the year ended 31 December 2015. They have been prepared on a going concern basis and in accordance with UK Generally Accepted Accounting Practice and applied in accordance with Financial Reporting Standard 104: Interim Financial Reporting and the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts, issued by the Association of Investment Companies in November 2014.

	<b>six months ended 30.06.16 unaudited £'000</b>	six months ended 30.06.15 unaudited £'000	year ended 31.12.15 audited £'000
<b>4 INCOME</b>			
<b>Income from investments</b>			
Overseas dividends	17,764	16,646	19,228
Overseas scrip dividends	2,079	188	1,462
UK dividends	993	708	1,051
	<b>20,836</b>	17,542	21,741
<b>Income from derivative instruments</b>			
Dividends on long CFDs	1,098	1,178	1,178
Interest received on long CFDs*	8	–	–
	<b>1,106</b>	1,178	1,178
<b>Income from investments and derivative instruments</b>	<b>21,942</b>	18,720	22,919
<b>Interest received</b>			
Interest received on deposits and money market funds	20	24	55
Interest received on tax reclaims	–	14	14
	<b>20</b>	38	69



<b>Total income</b>	<b>21,962</b>	18,758	22,988
	=====	=====	=====
* Due to negative interest rates during the period, the Company received interest on its long CFDs.			
	<b>six months ended 30.06.16 unaudited £'000</b>	six months ended 30.06.15 unaudited £'000	year ended 31.12.15 audited £'000
<b>5 INVESTMENT MANAGEMENT FEE</b>			
Investment Management Fee	<b>3,262</b>	3,239	6,344
	=====	=====	=====
FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management to FIL Investments International ("FIL"). FIL charges an annual fee of 0.85% of net assets, excluding the value of any investment in any fund which is managed by the Manager or an associate of the Manager. The fee is payable quarterly in arrears.			
	<b>six months ended 30.06.16 unaudited £'000</b>	six months ended 30.06.15 unaudited £'000	year ended 31.12.15 audited £'000
<b>6 TAXATION ON RETURN ON ORDINARY ACTIVITIES</b>			
Overseas taxation suffered	<b>2,481</b>	2,180	2,629
Overseas taxation recovered	<b>(1,566)</b>	(984)	(1,258)
<b>Current taxation charge</b>	<b>915</b>	1,196	1,371
	=====	=====	=====
	<b>six months ended 30.06.16 unaudited</b>	six months ended 30.06.15 unaudited	year ended 31.12.15 audited
<b>7 RETURN PER ORDINARY SHARE</b>			
Revenue return per ordinary share – pence	<b>4.17</b>	3.25	3.37
Capital return per ordinary share – pence	<b>9.46</b>	7.60	8.75
<b>Total return per ordinary share – pence</b>	<b>13.63</b>	10.85	12.12
	=====	=====	=====
The return per ordinary share is based on the net return on ordinary activities after taxation for the period divided by the weighted average number of ordinary shares in issue held outside Treasury during the period.			
	<b>six months ended 30.06.16 unaudited</b>	six months ended 30.06.15 unaudited	year ended 31.12.15 audited
Net revenue return on ordinary activities after taxation for the period – £'000	<b>17,354</b>	13,555	14,037
Net capital return on ordinary activities after taxation for the period – £'000	<b>39,368</b>	31,655	36,449

Net total return on ordinary activities after taxation for the period – £'000	<b>56,722</b>	45,210	50,486
Weighted average number of ordinary shares in issue held outside Treasury during the period	<b>416,365,665</b>	416,447,910	416,447,910
	<b>six months ended 30.06.16 unaudited £'000</b>	six months ended 30.06.15 unaudited £'000	year ended 31.12.15 audited £'000
<b>8 DIVIDENDS PAID</b>			
Final dividend of 3.33 pence per New Ordinary Share paid for the year ended 31 December 2015	<b>13,868</b>	–	–
Final dividend of 3.10 pence per New Ordinary Share paid for the year ended 31 December 2014	–	12,910	12,910
Special dividend of 0.54 pence per new Ordinary Share paid for the year ended 31 December 2014	–	2,249	2,249
	<b>13,868</b>	15,159	15,159

No dividend has been declared in respect of the six months ended 30 June 2016

## 9 FAIR VALUE HIERARCHY

The Financial Reporting Council defines a fair value hierarchy that classifies financial instruments measured at fair value at one of three levels, according to the relative reliability of the inputs used to measure their fair value.

Classification	Valued by reference to
Level 1	The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
Level 3	Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The table below sets out the fair value hierarchy of the Company's financial instruments held at fair value on the Balance Sheet:

	30 June 2016 unaudited		30 June 2015 unaudited		31 December 2015 audited	
	Level 1 £'000	Level 2 £'000	Level 1 £'000	Level 2 £'000	Level 1 £'000	Level 2 £'000
Financial instruments at fair value through profit or loss						
<b>Fixed assets – investments in listed equities</b>	<b>792,106</b>	–	731,007	–	746,648	–
<b>Derivative assets – long CFDs</b>	–	271	–	7,689	–	61
<b>Derivative liabilities – long CFDs</b>	–	(1,488)	–	–	–	(83)
	<b>792,106</b>	<b>(1,217)</b>	731,007	7,689	746,648	(22)

	30 June 2016 unaudited number of shares	£'000	30 June 2015 unaudited number of shares	£'000	31 December 2015 audited number of shares	£'000
<b>10 SHARE CAPITAL</b>						
Issued, allotted and fully paid Ordinary Shares of 2.5 pence each held outside Treasury						
<b>Beginning of the period</b>	<b>416,447,910</b>	<b>10,411</b>	416,447,910	10,411	416,447,910	10,411
<b>Shares repurchased into Treasury</b>	<b>(339,736)</b>	<b>(8)</b>	–	–	–	–
<b>End of the period</b>	<b>416,108,174</b>	<b>10,403</b>	416,447,910	10,411	416,447,910	10,411
<b>Ordinary Shares of 2.5 pence each held in Treasury*</b>						
<b>Beginning of the period</b>	–	–	–	–	–	–
Shares repurchased into Treasury	339,736	8	–	–	–	–
<b>End of the period</b>	<b>339,736</b>	<b>8</b>	–	–	–	–
<b>Total share capital</b>		<b>10,411</b>		<b>10,411</b>		<b>10,411</b>

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

## 11 NET ASSET VALUE PER ORDINARY SHARE

The net asset value per ordinary share is based on net assets of £802,611,000 (31 December 2015: £760,304,000 and 30 June 2015: £755,028,000) and on 416,108,174 (31 December 2015: 416,447,910 and 30 June 2015: 416,447,910) Ordinary Shares, being the number of ordinary shares in issue held outside Treasury at the period end.

## 12 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 to FIL Investments International. Details of the management fees payable are disclosed in Note 5.

As at 30 June 2016, the Board consisted of five non-executive Directors. No Director has a service contract with the Company.

The annual fee structure is as follows: Chairman – £37,500; Audit Committee Chairman – £28,000; and Director – £24,000.

Shares in the Company held by the Board are as follows: Vivian Bazalgette – 30,000 shares, James Robinson – 30,000 shares, Simon Fraser – 70,990 shares, Robin Niblett – 10,000 shares

and Marion Sears – 12,000 shares.

Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into, or forms part of, this announcement.

ENDS

A copy of the Half Yearly Report will shortly be submitted to the National Storage Mechanism and will be available for inspection at [www.morningstar.co.uk/uk/NSM](http://www.morningstar.co.uk/uk/NSM)

The Half Yearly Report will also be available on the Company's website at [www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com) where up to date information on the Company, including daily NAV and share prices, factsheets and other information can also be found.