

Fidelity European Values PLC

Final Results for the year ended 31 December 2017

Financial Highlights:

- **Fidelity European Values PLC delivered positive outperformance in its annual results for the year ended 31 December 2017, resulting in a net asset value (“NAV”) total return of +20.0%.**
- **The discount narrowed from 11.1% to 7.0% over the period, as result of the share price total return of +26.2%, outperforming the Company’s Benchmark which returned +17.5%.**
- **The Board has agreed that as of 1 April 2018, the existing annual management fee of 0.85% will only apply to the first £400m of funds under management and that a new rate of 0.75% will apply to funds in excess of £400m. A valuable saving for shareholders.**
- **The Board recommends a final dividend of 4.35 pence per share which represents an increase of 4.3% over that paid last year.**

Contacts

For further information, please contact:

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Chairman's Statement

Aiming to capture the diversity of Europe, across a range of countries and sectors, Fidelity European Values PLC looks beyond the noise of market sentiment and concentrates on the real-life progress of European listed businesses. It researches and selects stocks that can grow their dividends consistently, irrespective of the economic environment.

Performance

I am pleased to report that the Company's net asset value ("NAV") per share total return was 20.0% for the year ended 31 December 2017, outperforming the Benchmark Index, the FTSE World Europe (ex UK) Index, which returned 17.5% on the same basis. With the discount (ex-income) narrowing from 11.1% to 7.0%, the share price total return over the period was 26.2%. Performance over three and five years also remains ahead of the Benchmark Index as shown in the table below.

Markets in 2017 were supported by strong earnings growth as well as expansion in company valuations. Investor sentiment was boosted by fading political worries, with Emmanuel Macron's victory in the French presidential election a pivotal moment in reversing the recent populist surge in Europe. In addition, investors shifted their attention to economic and corporate factors, ignoring some of the unfavourable political developments elsewhere in the world. Overall, the European economic picture has been strengthening with improvements seen in consumer confidence and wage growth, reflected in a rising Purchasing Managers' Index. The continued accommodative monetary policy stance of the European Central Bank also helped markets.

Performance over one, three and five years and since launch to 31 December 2017 (on a total return basis) (%)

	1 year	3 years	5 years	Since launch
Total return (%)				
NAV per Ordinary Share	+20.0	+50.8	+90.1	+3,148.5
Share Price	+26.2	+48.5	+94.9	+2,930.0
Benchmark Index	+17.5	+48.2	+85.8	+967.1
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Sources: Fidelity and Datastream

Past performance is not a guide to future returns

Due Diligence Visit to Zurich

During the reporting year, the Directors visited a selection of companies, some of which are among the Company's portfolio holdings, to hear about their business strategy and prospects. This is a due diligence oriented exercise, which the Board conducts every second year, and typically also includes meetings with a local market economist or other specialist. The due diligence trip, which in 2017 was to Zurich, is important for providing the Board with useful context about continental European markets in which the Company invests. It also gives perspective on the Portfolio Manager's analysis and investment approach.

Outlook

European stocks have benefited from a rise in both earnings and valuations in 2017. While there is scope for companies to deliver more in the way of earnings growth, there is limited room for market earnings multiples to expand further. This may increase vulnerability to any disappointments when company results are announced, while geo-political shocks could have a similar effect. Overall, markets have been aided by liquidity injections from global central banks and may be impacted by liquidity withdrawal as 2018 unfolds, particularly if this happens more quickly than expected. In such an environment your Portfolio Manager's concentration on fundamentally strong businesses should help performance.

Naturally the continuing process of Brexit represents an additional uncertainty at present. While the first stage of negotiations focused on the UK's financial liability has concluded, the more complex discussions about trading relationships in the future are only just getting under way. It is quite possible that the arrangements will vary by sector, and they may yet fail to be agreed in their entirety. Your Portfolio Manager remains alert to the potential implications for individual European companies, particularly those in the portfolio, while the Euro could weaken or strengthen further against UK sterling depending on the outcome. In Note 17 to the accounts below there is an analysis of the sensitivity of the portfolio's value to currency movements.

OTHER MATTERS

Investment Objective

I would ask you to note that the Board is proposing to amend the investment objective of the Company from:

“The investment objective of the Company is to achieve long term capital growth principally from the stock markets of continental Europe“

to:

“The Company aims to achieve long term growth in both capital and income by predominantly investing in equities (and their related securities) of continental European companies.”

The detailed proposed Investment Policy is set out in the Appendix to the Notice of Meeting in the Annual Report, the key aspects of which are summarised as:

The Investment Manager will typically focus on larger companies which show good prospects for sustainable long term dividend growth. The Investment Manager is not restricted in terms of size, industry or geographical split. The Company may also invest into other transferable securities, investment companies, money market instruments, cash and deposits and is also able to use derivatives for efficient portfolio management, to gain additional market exposure (gearing) and for investment purposes. The Investment Manager must work within the guidelines set out in the Investment Policy.

Although the change to the Company's investment objective and the consequential changes to the investment policy are not considered to be material changes, the Board has decided, for good order, to put these to shareholders for approval. The Appendix to the Notice of Meeting in the Annual Report details the changes proposed.

I should emphasise that the change in investment objective does not imply any change to the way in which your Portfolio Manager invests on your behalf. Rather, it is acknowledged that income as well as capital growth are components of the performance which he seeks to achieve.

The key aspects of the Investment Policy summarised above are consistent with the phraseology of the Key Information Document (“KID”) which is a new regulatory requirement as of the start of 2018. This is as a result of the introduction of the European Union Packaged Retail and Insurance-based Investment Products (“PRIIPs”) Regulation. The format of the KID is largely prescribed and it is available on the Company's website.

Allocation of Fees

Consistent with the changes in objective outlined above, the Board has elected under the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts (“SORP”) issued by the Association of Investment Trust Companies, to charge in future 75% of management fees and finance costs to capital, and 25% to revenue, reflecting the balance of the capital and revenue elements of total return experienced historically over the longer term. This will take effect in the 2018 financial year. The current practice, for the years up to and including the 2017 financial year, has been to charge these costs in their entirety to revenue. The change is a matter for judgement and the result of the Board reviewing its policy on the allocation of fees. Total return is not affected whichever route is followed, though relative rates of taxation of income and capital gains may be a consideration for investors.

Management Fees

I am pleased to report that, following a review of the management fees payable to Fidelity, it has been agreed that the existing annual flat fee rate of 0.85 per cent will only apply to the first £400 million of funds under management and that a new rate of 0.75 per cent will be applied to funds in excess of £400 million. This starts from 1st April 2018. At the current size of the Trust this is equivalent to an overall rate of approximately 0.79 per cent and will represent a useful saving for shareholders.

The Board also welcomes Fidelity's decision to absorb the cost of external investment research, which under the rules established by the latest Markets in Financial Instruments Directive of the EU (MIFID II) can no longer be recovered from broker dealing commissions. This would otherwise have resulted in an additional expense to your Company.

Dividends

The Board has not sought to influence the Portfolio Manager by imposing any income objective in any particular year, although the investment focus on companies capable of growing their dividend has seen the Company's dividend payments rise over time.

The Board recommends a final dividend of 4.35 pence per share for the year ended 31 December 2017 for approval by the shareholders at the AGM on 14 May 2018. The dividend will be payable on 18 May 2018 to shareholders who appear on the register as at close of business on 23 March 2018 (ex-dividend date 22 March 2018).

The increase in the proposed final dividend for 2017 over the 4.17 pence paid for 2016 is 4.3%.

Discount Management and Treasury Shares

The Board continues to adopt an active discount management policy. Whilst the primary purpose of this 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 ordinary 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 altogether. These shares are then available to re-issue at a premium to NAV, facilitating the management of and enhancing liquidity in the Company's shares. The Board is seeking shareholder approval to renew this authority at the forthcoming Annual General Meeting ("AGM").

As a result of the widening of the discount in the first quarter of 2017, the Company repurchased 150,000 ordinary shares into Treasury. Since then and as at the date of this report, the Company has not repurchased any further ordinary shares.

Gearing

The Company continues to gear through the use of derivative instruments, primarily contracts for difference ("CFDs"), and the Manager has flexibility to gear within parameters set by the Board. As at 31 December 2017, the Company's gross gearing was 13.2% (2016: 3.0%) whilst net gearing was 3.6% (2016: 3.0%). In the reporting year, gearing made a positive contribution to performance, as can be seen from the attribution analysis table in the Annual Report.

The Board monitors the level of gearing and the use of derivative instruments carefully and has set a risk control framework for this purpose and this is reviewed at each Board meeting.

Board of Directors

The Board was pleased to welcome Paul Yates as a non-executive Director on 6 March 2017 and he was subsequently elected by shareholders at the AGM on 15 May 2017. Following this, and after serving fifteen years as a Director, Simon Fraser stepped down from the Board at the conclusion of the AGM on 15 May 2017. The Board thanks him for his invaluable contribution to the Company.

The Board is also pleased to welcome Fleur Meijs who joined the Board as a non-executive Director on 1 September 2017. As previously reported, Fleur is a continental European national, a Chartered Accountant and a former Financial Services Partner at PricewaterhouseCoopers LLP. She is a non-executive Director of Invesco Asia Trust plc and Ruffer LLP and she serves as Audit Committee Chair for both. She is a Director of Bridge to the Future (the endowment fund for United World College Mostar). She was a member of the Dutch Parliamentary committee in 2013 for the structure of banks in the Netherlands.

After serving on the Board for over ten years as a non-executive Director and nearly eight years as Senior Independent Director and Chairman of the Audit Committee, James Robinson will step down from the Board at the forthcoming AGM. I would like to take this opportunity to thank him on behalf of all the Company's stakeholders for everything he has accomplished, for his unfailing dedication and attention to detail, and his wisdom and good humour. He will take with him our very best wishes for the future.

Accordingly, with effect from 14 May 2018, James will be succeeded as Audit Committee Chairman by Fleur Meijs and as Senior Independent Director by Marion Sears.

We continue to review Board composition and Directors' succession on a regular basis to ensure that we have a Board with a mix of tenures and which provides diversity of perspective together with the range of appropriate skills and experience for your Company. In accordance with the UK Corporate Governance Code, and being a FTSE 350 Company, all Directors are subject to annual election and re-election by shareholders and put themselves forward for election and re-election at the forthcoming AGM. Biographical details of each Director are shown in the Annual Report.

Annual General Meeting

The AGM of the Company will be held at midday on Monday 14 May 2018 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 in the Annual Report.

This is our opportunity to meet as many shareholders as possible, and I hope therefore that you are able to join us. In addition to the formal business of the meeting, Sam Morse, your Portfolio Manager, will be making a presentation on the year's results and the outlook for 2018.

Vivian Bazalgette

Chairman

14 March 2018

Portfolio Manager's Review

Performance Review

As shown in the Financial Summary in the Annual Report, the net asset value ("NAV") total return, in the year to 31 December 2017 was 20.0% compared to a total return of 17.5% for the FTSE World Europe (ex UK) Index which is the Company's Benchmark Index. The share price total return was 26.2%, which is ahead of the NAV total return as a consequence of a narrowing of the discount from 11.1% at the beginning of the year to 7.0% at the end of the reporting period, based on the NAV excluding income (all figures in UK sterling).

Market Background

2017 turned out to be a very rewarding year for investors in the stock markets of continental Europe as companies grew their earnings handsomely and as valuations continued to expand. UK investors enjoyed even higher returns thanks to the continuing appreciation of the Euro against UK sterling.

Equity markets entered the year in rude health riding a wave of optimism thanks to President Trump's election promises of more fiscal spending and a reduction in taxes. Shares were further boosted, in the first half of the year, by 'market friendly' election results, particularly in France where Emmanuel Macron's 'En Marche!' party swept to power removing one of the main angsts: the possibility of a Marine LePen presidency. Minor shocks in the latter part of the year, such as the disturbances in Catalonia or the war of words between the Presidents of the USA and North Korea, were quickly brushed aside by the continuing pick-up in earnings, and more importantly dividends, delivered by continental European companies. This is what really drives stock markets and this is what allowed continental European shares to advance strongly even though valuations were already high relative to historical norms. The year was also remarkable for a very low level of volatility – perhaps not to be repeated – such that continental European indices marched up steadily and consistently through the year.

Portfolio Review

The Company's NAV outperformed the Benchmark Index by 2.5% in 2017. Stock selection was the main driver of this outperformance.

Among sectors there was quite a notable dispersion of performance in 2017. The energy sector endured a poor first half of the year as analysts questioned the ability of the large integrated oil companies to generate cash and cover dividend payments against the backdrop of a stalling recovery in the price of the commodity. This negatively impacted both Royal Dutch Shell and Total which are the Company's two holdings in this sector. Both companies, however, demonstrated their ability to improve cash flows, as quarterly results progressed, by cutting operating and capital expenditure and Royal Dutch Shell ended the year on a positive note by detailing plans, at its strategy day, to remove the scrip element from its dividend.

Healthcare stocks struggled for much of the year suffering from a weaker dollar, given that much of their sales and profits are sourced in America, and from continued pricing pressures in all geographies. While Sanofi and Roche performed relatively poorly, with little relief from new drug launches, Novo Nordisk performed strongly, rebounding from a disappointing 2016 with investors re-rating the company as earnings revisions stabilised and on the approval of its new diabetes drug, Ozempic.

The strong performance of technology stocks on Wall Street has been well documented but the continental European sector also had a strong year which helped the Company given its double weighting in the sector with holdings in ASML, Amadeus IT Group, SAP and Dassault Systemes.

The largest contributor to outperformance for the Company was, however, the financial sector with strong returns from many of the bank holdings, such as ABN Amro, Intesa Sanpaolo and KBC, as investors warmed to their high and growing dividends and as the fear of harsh Basel IV regulation subsided towards the end of the year.

There were two other notables during the year from a stock-picking perspective. The star of the year was Société des Bains de Mer de Monaco which almost doubled in value. The company's shares sparked to life in the last quarter, after a few quiet years, when its majority owner, the State of Monaco, added to its stake by buying out a sizeable shareholder. The shares jumped again when the company subsequently confirmed that its two major property redevelopments, the Hotel de Paris and Sporting D'Hiver, were on time, with completion by end 2018, and were on budget. Elixir, the catering and concessions business, was by contrast a poor performer in the second half of the year, falling on disappointing guidance for next year which followed hot on the heels of the resignation of the Chief Executive. The holding has subsequently been sold given that the company is no longer growing its dividend and financial leverage is now an increasing concern.

Use of Derivatives

Gearing made a positive contribution to performance in the reporting year, delivering +0.4% to the NAV total return of 20.0%. During the second half of the year your Portfolio Manager started to introduce more single-name short positions, using CFDs, into the Company, as the market continued its relentless climb. Shareholders gave approval in late 2015, to use derivatives more flexibly and this has now developed into a more meaningful part of the Company's investing activity. Short positions are generally taken in larger companies which are less likely to be taken over. They are selected from a range of mature, cyclical sectors. These stocks typically do not meet your Portfolio Manager's investment criteria, in terms of dividend growth, or other factors, and are often negatively rated by the team of analysts at Fidelity. As such, the short portfolio may magnify the Company's style in terms of performance relative to the Benchmark because it is a mirror image of the investment strategy of the Company. Identification of a specific short term catalyst for underperformance is not required by your Portfolio Manager but mechanisms for capping losses, if the stock outperforms, will be applied. An equivalent weighting in Euro Stoxx 50 futures was purchased during the second half of the year to keep net gearing at its previous level and to provide transparency on the performance of the short portfolio. The performance of the short portfolio and the Euro Stoxx 50 futures largely off-set each other such that for the second half of the year the impact on the performance of the Company of this derivatives strategy was slightly loss-making. The Manager is confident that this strategy will add value to the portfolio over time but this will be subject to periodic review.

Outlook

After a very rewarding 2017, many investors are anticipating 'more of the same' in 2018 given improving global economic growth and a lack of attractive investment alternatives. Some, including our own global CIO of equities, have suggested that we may see a 'healthy correction' soon given lofty multiples and high expectations for continued earnings growth. This is a risk but last year shows that trying to 'time' markets can be costly. The main risks, or catalysts for a correction, are cited as geo-political or related to central banks tightening monetary policy more quickly than expected, perhaps forced to do so by rising inflation. If the latter happened it would simultaneously remove the valuation support of low bond yields and drain the liquidity that has supported share prices for much of the last decade. In any event, your Portfolio Manager will stay fully invested, as always, and will maintain a focus on attractively-valued companies which have the potential to grow their dividends consistently over a three to five year period. The Company may be buffeted in the shorter term by changes in the stock market or economic environment but in the longer run these sorts of companies should deliver outperformance versus the Benchmark.

Sam Morse

Portfolio Manager

14 March 2018

Strategic Report

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 these since the prior year.

Principal Risks	Description and Risk Mitigation
Market Risk	<p>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 exchange rate movements. The Portfolio Manager’s success or failure to protect and increase the Company’s assets against this background is core to the Company’s continued success.</p> <p>Risks to which the Company is exposed in the market risk category are included in Note 17 to the Financial Statements below together with summaries of the policies for managing these risks.</p>
Performance Risk	<p>The achievement of the Company’s performance objective relative to the market requires the application of risk such as strategy, asset allocation and stock selection and may lead to underperformance of the Benchmark Index. The Board reviews the performance of the portfolio against the Company’s Benchmark and that of its competitors and the outlook for the market with the Portfolio Manager at each Board meeting. The Portfolio Manager is responsible for actively monitoring the portfolio selected in accordance with the asset allocation parameters and seeks to ensure that individual stocks meet an acceptable risk/reward profile. The emphasis is on long term results as the Company may experience volatility of performance in the shorter term.</p>
Economic and Political Risk	<p>The Company may be impacted by economic and political risks, including from the UK’s departure from the European Union (Brexit). Further details of the continuing process of Brexit are in the Chairman’s Statement above. The Board regularly reviews economic and political risks.</p>
Discount Control Risk	<p>The price of the Company’s shares and its discount to NAV are factors which are not within the Company’s total control. The Board continues to adopt an active discount management policy. Some short term influence over the discount may be exercised by the use of share repurchases at acceptable prices within the parameters set by the Board. The Company’s share price, NAV and discount volatility are monitored daily by the Manager and considered by the Board at each of its meetings.</p>
Gearing Risk	<p>The Company has the option to invest up to the total of any loan facilities or to use CFDs to invest in equities. The principal risk is that the Portfolio Manager may fail to use gearing effectively, resulting in a failure to outperform in a rising market or to underperform in a falling market. Other risks are that the cost of gearing may be too high or that the term of the gearing is inappropriate in relation to market conditions. The Company currently has no bank loans and gears through the use of long CFDs which provide greater flexibility and are significantly cheaper than bank loans. The Board regularly considers the level of gearing and gearing risk and sets limits within which the Manager must operate.</p>
Derivatives Risk	<p>Derivative instruments are used to enable both the protection and enhancement of investment returns. There is a risk that the use of derivatives may lead to a higher volatility in the NAV and the share price than might otherwise be the case. The Board has put in place policies and limits to</p>

control the Company's use of derivatives and exposures. These are monitored on a daily basis by the Manager's Compliance team and regular reports are provided to the Board.

Further details on derivative instruments risk is included in Note 17 below.

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.

Other risks facing the Company include:

Tax and Regulatory Risks

A breach of Section 1158 of the Corporation Tax Act 2010 could lead to a loss of investment trust status, resulting in the Company being subject to tax on capital gains.

The Company may be impacted by changes in legislation, taxation or regulation. These are monitored at each Board meeting and managed through active engagement with regulators and trade bodies by the Manager.

Operational Risks

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 programme 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 are investigated.

Continuation Vote

A continuation vote takes place every two years. There is a risk that shareholders do not vote in favour of the continuation of the Company during periods when performance of the Company's NAV and share price is poor. At the Company's AGM held on 15 May 2017, 99.84% of shareholders voted in favour of the continuation of the Company. The next continuation vote will take place 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 considers 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 whether it remains 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 fact that the portfolio mainly comprises 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 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 below. 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.

* See *proposed changes to the investment objective and policy in the Appendix to the Notice of Meeting* in the Annual Report.

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 above.

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 period. 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 reporting 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 that 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 own 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 14 March 2018 and signed on its behalf by:

Vivian Bazalgette
Chairman

Income Statement

for the year ended 31 December 2017

	Notes	Year ended 31 December 2017			Year ended 31 December 2016		
		revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Gains on investments	10	–	152,924	152,924	–	114,211	114,211
Gains/(losses) on derivative instruments	11	–	1,211	1,211	–	(1,502)	(1,502)
Income	3	29,384	–	29,384	27,006	–	27,006
Investment management fees	4	(8,281)	–	(8,281)	(6,972)	–	(6,972)
Other expenses	5	(802)	–	(802)	(919)	–	(919)
Foreign exchange gains		–	22	22	–	6	6
Net return on ordinary activities before finance costs and taxation		20,301	154,157	174,458	19,115	112,715	131,830
Finance costs	6	(308)	–	(308)	–	–	–
Net return on ordinary activities before taxation		19,993	154,157	174,150	19,115	112,715	131,830
Taxation on return on ordinary activities	7	(1,840)	–	(1,840)	(1,053)	–	(1,053)
Net return on ordinary activities after taxation for the year		18,153	154,157	172,310	18,062	112,715	130,777
Return per ordinary share	8	4.37p	37.13p	41.50p	4.34p	27.10p	31.44p

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 Other 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 below form an integral part of these Financial Statements.

Statement of Changes in Equity

for the year ended 31 December 2017

	Notes	share capital £'000	share premium account £'000	capital redemption reserve £'000	capital reserve £'000	revenue reserve £'000	total share- holders' funds £'000
Total shareholders' funds at 31 December 2016		10,411	58,615	5,414	775,588	25,323	875,351
Net return on ordinary activities after taxation for the year		–	–	–	154,157	18,153	172,310
Repurchase of ordinary shares	14	–	–	–	(293)	–	(293)
Dividends paid to shareholders	9	–	–	–	–	(17,320)	(17,320)
Total shareholders' funds at 31 December 2017		10,411	58,615	5,414	929,452	26,156	1,030,048
Total shareholders' funds at 31 December 2015		10,411	58,615	5,414	664,735	21,129	760,304
Net return on ordinary activities after taxation for the year		–	–	–	112,715	18,062	130,777
Repurchase of ordinary shares	14	–	–	–	(1,862)	–	(1,862)
Dividends paid to shareholders	9	–	–	–	–	(13,868)	(13,868)
Total shareholders' funds at 31 December 2016		10,411	58,615	5,414	775,588	25,323	875,351

The Notes below form an integral part of these Financial Statements.

Balance Sheet

as at 31 December 2017

Company number 2638812

	Notes	2017 £'000	2016 £'000
Fixed assets			
Investments	10	1,011,114	862,747
Current assets			
Derivative instruments	11	3,652	–
Debtors	12	5,929	3,557
Amounts held at futures clearing houses and brokers		11,127	1,382
Fidelity Institutional Liquidity Fund		3,030	6,283
Cash at bank		4,128	4,003
		-----	-----
		27,866	15,225
		=====	=====
Creditors			
Derivative instruments	11	(6,575)	(577)
Other creditors	13	(2,357)	(2,044)
		-----	-----
		(8,932)	(2,621)
		-----	-----
Net current assets		18,934	12,604
		-----	-----
Net assets		1,030,048	875,351
		=====	=====
Capital and reserves			
Share capital	14	10,411	10,411
Share premium account	15	58,615	58,615
Capital redemption reserve	15	5,414	5,414
Capital reserve	15	929,452	775,588
Revenue reserve	15	26,156	25,323
		-----	-----
Total shareholders' funds		1,030,048	875,351
		=====	=====
Net asset value per ordinary share	16	248.08p	210.75p
		=====	=====

The Financial Statements above and below were approved by the Board of Directors on 14 March 2018 and were signed on its behalf by:

Vivian Bazalgette, Chairman
Chairman

The below form an integral part of these Financial Statements.

Notes to the Financial Statements

1 Principal Activity

Fidelity European 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 2638812, 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 and updated in January 2017 with consequential amendments. 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.

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.

Derivative instrument income received from dividends on long contracts for difference ("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 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.

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 comprise interest paid on contracts for difference (“CFDs”), which is accounted for on an accruals basis using the effective interest method, and dividends paid on short CFDs, which are accounted for on the date on which the obligation to incur the cost is established, normally the ex-dividend date. Finance costs are charged in full to 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 substantially 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 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.

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.

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 and futures. 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.

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 in gains on derivative instruments 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 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 plc, 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.

p) Other creditors – Other creditors include investment management fees 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) Cash at bank – Cash at bank is subject to an insignificant risk of changes in value.

r) 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.

3 Income

	Year ended 31.12.17 £'000	Year ended 31.12.16 £'000
Investment income		
Overseas dividends	22,271	20,708
Overseas scrip dividends	3,094	3,114
UK dividends	1,394	1,379
UK scrip dividends	611	458
	-----	-----
	27,370	25,659
	=====	=====

Derivative income

Income recognised from futures contracts	434	–
Dividends received on long CFDs	1,525	1,284
Interest received on long CFDs*	43	26
	-----	-----
	2,002	1,310
	-----	-----
Investment and derivative income	29,372	26,969
	=====	=====
Other interest		
Interest received on bank deposits and money market funds	12	35
Interest received on tax reclaims	–	2
	-----	-----
	12	37
	-----	-----
Total income	29,384	27,006
	=====	=====

* Due to negative interest rates during the reporting year, the Company received interest on its long CFDs

4 Investment Management Fees

	Year ended 31.12.17	Year ended 31.12.16
	£'000	£'000
Investment management fees	8,281	6,972
	-----	-----

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management to FIL Investments International ("FIL"). Both companies are Fidelity group companies. FIL charges fees at an annual rate of 0.85% of net assets. Fees are payable quarterly in arrears and are calculated on the last business day of March, June, September and December.

5 Other Expenses

	Year ended 31.12.17	Year ended 31.12.16
	£'000	£'000
AIC fees	21	21
Custody fees	105	90
Depository fees	66	62
Directors' fees ¹	151	146
Legal and professional fees	96	158
Marketing expenses ²	144	229
Printing and publication expenses	91	91

Registrars' fees	65	70
Fees payable to the Independent Auditor for the audit of the Financial Statements ³	25	25
Other expenses	38	27
	-----	-----
	802	919
	=====	=====

1 Details of the breakdown of Directors' fees are disclosed in the Directors' Remuneration Report in the Annual Report

2 The marketing expenses are lower for 2017 due to there no longer being any share plan expenses

3 The VAT payable on audit fees is included in other expenses

6 Finance Costs

	Year ended	Year ended
	31.12.17	31.12.16
	£'000	£'000
Interest paid on short CFDs*	128	–
Dividends paid on short CFDs	180	–
	-----	-----
	308	–
	=====	=====

* Due to negative interest rates during the year, the Company has paid interest on its short CFDs

7 Taxation on Return on Ordinary Activities

	Year ended 31 December 2017			Year ended 31 December 2016		
	revenue	capital	total	revenue	capital	total
	£'000	£'000	£'000	£'000	£'000	£'000
a) Analysis of the taxation charge for the year						
Overseas taxation	1,857	–	1,857	1,053	–	1,053
Prior year adjustment	(17)	–	(17)	–	–	–
	-----	-----	-----	-----	-----	-----
Total taxation charge for the year (see Note 7b)	1,840	–	1,840	1,053	–	1,053
	=====	=====	=====	=====	=====	=====

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 19.25% (2016: 20%). A reconciliation of the standard rate of UK corporation tax to the taxation charge for the year is shown below:

	Year ended 31 December 2017			Year ended 31 December 2016		
	revenue	capital	total	revenue	capital	total

	£'000	£'000	£'000	£'000	£'000	£'000
Return on ordinary activities before taxation	19,993	154,157	174,150	19,115	112,715	131,830
	-----	-----	-----	-----	-----	-----
Return on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19.25% (2016: 20%)	3,848	29,675	33,523	3,823	22,543	26,366
Effects of:						
Gains on investments not taxable ¹	-	(29,675)	(29,675)	-	(22,543)	(22,543)
Income not taxable	(4,888)	-	(4,888)	(4,924)	-	(4,924)
Excess management expenses	1,040	-	1,040	1,101	-	1,101
Overseas taxation	1,857	-	1,857	1,053	-	1,053
Prior year adjustment	(17)	-	(17)	-	-	-
	-----	-----	-----	-----	-----	-----
Total taxation charge for the year (see Note 7a)	1,840	-	1,840	1,053	-	1,053
	=====	=====	=====	=====	=====	=====

1 The Company is exempt from UK taxation on capital gains 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 £6,361,000 (2016: £5,443,000), in respect of excess management expenses of £31,914,000 (2016: £26,511,000) and excess loan interest of £5,505,000 (2016: £5,505,000), 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 December 2017			Year ended 31 December 2016		
	revenue	capital	total	revenue	capital	total
Return per ordinary share – basic and diluted	4.37p	37.13p	41.50p	4.34p	27.10p	31.44p
	-----	-----	-----	-----	-----	-----

The returns per ordinary share are based on, respectively; the net revenue return on ordinary activities after taxation for the year of £18,153,000 (2016: £18,062,000), the net capital return on ordinary activities after taxation for the year of £154,157,000 (2016: £112,715,000) and the net total return on ordinary activities after taxation for the year of £172,310,000 (2016: £130,777,000), and on 415,237,930 ordinary shares (2016: 415,946,054), being the weighted average number of ordinary shares held outside Treasury in issue during the year.

9 Dividends Paid to Shareholders

	Year ended 31.12.17 £'000	Year ended 31.12.16 £'000
Dividends paid		
Final dividend of 4.17 pence per Ordinary Share paid for the year ended 31 December 2016	17,320	-
Final dividend of 3.33 pence per Ordinary Share paid for the year ended 31 December 2015	-	13,868
	-----	-----

	17,320	13,868
	=====	=====
Dividend proposed		
Final dividend proposed of 4.35 pence per Ordinary Share for the year ended 31 December 2017	18,061	–
Final dividend of 4.17 pence per Ordinary Share paid for the year ended 31 December 2016	–	17,320
	-----	-----
	18,061	17,320
	=====	=====

The Directors have proposed the payment of a final dividend for the year ended 31 December 2017 of 4.35 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 18 May 2018 to shareholders on the register at the close of business on 23 March 2018 (ex-dividend date 22 March 2018).

10 Investments

	2017	2016
	£'000	£'000
Investments held at fair value through profit or loss	1,011,114	862,747
	-----	-----
Opening book cost	624,412	605,272
Opening investment holding gains	238,335	141,376
	-----	-----
Opening fair value	862,747	746,648
Movements in the year		
Purchases at cost	220,890	158,302
Sales – proceeds	(225,447)	(156,414)
Sales – gains	59,341	17,252
Movement in investment holding gains	93,583	96,959
	-----	-----
Closing fair value	1,011,114	862,747
	=====	=====
Closing book cost	679,196	624,412
Closing investment holding gains	331,918	238,335
	-----	-----
Closing fair value	1,011,114	862,747
	=====	=====
	Year ended	Year ended
	31.12.17	31.12.16
	£'000	£'000
Gains on investments		
Gains on sales of investments	59,341	17,252
Investment holding gains	93,583	96,959

-----	-----
152,924	114,211
=====	=====

Investment transaction costs

Transaction costs incurred in the acquisition and disposal of investments, which are included in the gains on investments above, were as follows:

	Year ended 31.12.17 £'000	Year ended 31.12.16 £'000
Purchases transaction costs	499	341
Sales transaction costs	176	185
	-----	-----
	675	526
	=====	=====

The portfolio turnover rate for the year was 23.3% (2016: 19.7%). The portfolio turnover rate measures the Company's trading activity. It is calculated by taking the average of the total amount of securities purchased and the total amount of the securities sold in the reporting year divided by the average investment portfolio value of the Company.

11 Derivative Instruments

	Year ended 31.12.17 £'000	Year ended 31.12.16 £'000
Net gains/(losses) on derivative instruments		
Gains/(losses) on long CFD positions closed	683	(947)
Gains on short CFD positions closed	654	-
Gains on futures contracts closed	2,220	-
Movement in investment holding gains/(losses) on long CFDs	2,302	(555)
Movement in investment holding losses on short CFDs	(3,068)	-
Movement in investment holding losses on futures	(1,580)	-
	-----	-----
	1,211	(1,502)
	=====	=====
	2017	2016
Derivative instruments recognised on the Balance Sheet	fair value	fair value
Derivative assets at fair value through the profit & loss	£'000	£'000
	3,652	-
Derivative liabilities at fair value through the profit & loss	(6,575)	(577)
	-----	-----
	(2,923)	(577)
	=====	=====

	2017		2016	
	fair value	gross asset exposure	fair value	gross asset exposure
	£'000	£'000	£'000	£'000
At the year end the Company held the following derivative instruments				
Long CFDs	1,725	36,169	(577)	38,785
Short CFDs	(3,068)	48,990	–	–
Long futures	(1,580)	69,693	–	–
	-----	-----	-----	-----
	(2,923)	154,852	(577)	38,785
	=====	=====	=====	=====

12 Debtors

	2017	2016
	£'000	£'000
Securities sold for future settlement	939	–
Taxation recoverable	4,261	2,770
Accrued income	702	725
Other debtors	27	62
	-----	-----
	5,929	3,557
	=====	=====

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

13 Other Creditors

	2017	2016
	£'000	£'000
Creditors and accruals	2,357	2,044
	-----	-----

14 Share Capital

	2017		2016	
	number of shares	£'000	number of shares	£'000
Issued, allotted and fully paid				
Ordinary shares of 2.5 pence each held outside Treasury				
Beginning of the year	415,352,177	10,384	416,447,910	10,411
Ordinary Shares repurchased into Treasury	(150,000)	(4)	(1,095,733)	(27)
	-----	-----	-----	-----
End of the year	415,202,177	10,380	415,352,177	10,384

Ordinary shares of 2.5 pence each held in Treasury*				
Beginning of the year	1,095,733	27	–	–
Ordinary Shares repurchased into Treasury	150,000	4	1,095,733	27
End of the year	1,245,733	31	1,095,733	27
Total share capital		10,411		10,411

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

The cost of ordinary shares repurchased into Treasury during the year was £293,000 (2016: £1,862,000).

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 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 as recognised in the capital column of the Income Statement. Refer to Notes 10 and 11 for information on investment holdings gains/(losses) included in this reserve. It can be used to fund share repurchases and it is distributable by way of dividend. The Board has 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 £1,030,048,000 (2016: £875,351,000) and on 415,202,177 (2016: 415,352,177) ordinary shares, being the number of New Ordinary Shares of 2.5 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 a premium to net asset value per share and, therefore, shares held in Treasury have no dilutive effect.

17 Financial Instruments

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. Risks identified are shown in the Strategic Report in the Annual Report.

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 and futures on 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 level of gearing is reviewed by the Board and the Portfolio Manager. 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:

	2017	2016
	£'000	£'000
Exposure to financial instruments that earn interest		
Short CFDs – exposure plus fair value	45,922	–
Amounts held at futures clearing houses and brokers	11,127	1,382
Fidelity Institutional Liquidity Fund	3,030	6,283
Cash at bank	4,128	4,003
	-----	-----
	64,207	11,668
	=====	=====
Exposure to financial instruments that bear interest		
Long CFDs – exposure less fair value	34,444	39,362
	=====	=====
Net exposure to financial instruments that earn/(bear) interest	29,763	(27,694)
	=====	=====

Due to negative interest rates during the year, the Company has received interest on its long CFDs and paid interest on its short CFDs.

Foreign currency risk

The Company's net return on ordinary activities after taxation and its net assets can be affected by foreign exchange rate movements because the Company has income, assets and liabilities 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.

The portfolio management team monitor foreign currency risk but it is not the Company's current policy to hedge against currency risk.

Currency exposure of financial assets

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

currency	2017				
	investments at fair value £'000	long exposure to derivative instruments £'000	debtors ¹ £'000	cash at bank £'000	total £'000
Danish krone	48,322	–	308	–	48,630
Euro	690,319	105,862	3,696	9	799,886
Norwegian krone	42,216	–	–	–	42,216
Swedish krona	8,172	–	–	–	8,172
Swiss franc	164,455	–	1,664	–	166,119
UK sterling	57,630	–	14,418	4,119	76,167
	=====	-----	-----	-----	-----
	1,011,114	105,862	20,086	4,128	1,141,190
	=====	=====	=====	=====	=====
currency	2016				
	investments at fair value £'000	long exposure to derivative instruments £'000	debtors ¹ £'000	cash at bank £'000	total £'000
Danish krone	38,709	–	162	–	38,871
Euro	564,407	38,785	2,235	32	605,459
Norwegian krone	31,898	–	–	–	31,898
Swedish krona	15,330	–	–	–	15,330
Swiss franc	158,897	–	772	–	159,669
UK sterling	53,506	–	8,053	3,971	65,530
	-----	-----	-----	-----	-----
	862,747	38,785	11,222	4,003	916,757
	=====	=====	=====	=====	=====

1 Debtors include amounts held at futures clearing houses and brokers and amounts invested in the Fidelity Institutional Liquidity Fund

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 creditors. The currency profile of these financial liabilities is shown below:

	2017		
	short exposure to derivative instruments	other creditors	total
currency	£'000	£'000	£'000
Euro	43,991	–	43,991
Swiss franc	4,999	–	4,999
UK sterling	–	2,357	2,357
	-----	-----	-----
	48,990	2,357	51,347
	=====	=====	=====
		2016	
	short exposure to derivative instruments	other creditors	total
currency	£'000	£'000	£'000
UK sterling	–	2,044	2,044
	-----	-----	-----

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 Portfolio 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 bank overdraft, if required.

Liquidity risk exposure

At 31 December 2017 the undiscounted gross cash outflows of the financial liabilities were all repayable within one year and consisted of derivative instrument liabilities of £6,575,000 (2016: £577,000) and other creditors of £2,357,000 (2016: £2,044,000).

Counterparty risk

Certain of the derivative instruments in which the Company invests 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 are believed 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 by evaluating 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 December 2017, £3,825,000 (2016: nil) was held in cash, in a segregated collateral account on behalf of the Company, to reduce the credit risk exposure of the Company and £11,127,000 (2016: £1,382,000) was held by the Company 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, derivative instrument contracts and cash at bank.

Derivative instruments risk

The risks and risk management processes which result from the use of derivative instruments 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 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 December 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 £74,000 (2016: £69,000). A decrease of 0.25% in interest rates throughout the year would have had an equal but opposite effect.

Foreign currency risk sensitivity analysis

Based on the financial instruments held and currency exchange rates at 31 December 2017, a 10% strengthening or weakening of the UK sterling exchange rate against foreign currencies, with all other variables held constant, would have (decreased)/increased the Company's net return on ordinary activities after taxation for the year and the Company's net assets by the following amounts:

If the UK sterling exchange rate had strengthened by 10% the impact would have been:

currency	£'000	£'000
Danish krone	(4,421)	(3,534)
Euro	(68,263)	(55,042)
Norwegian krone	(3,838)	(2,900)
Swedish krona	(743)	(1,394)
Swiss franc	(15,102)	(14,515)
	-----	-----
	(92,367)	(77,385)
	=====	=====

If the UK sterling exchange rate had weakened by 10% the impact would have been:

currency	2017 £'000	2016 £'000
Danish krone	5,403	4,319
Euro	83,433	67,273
Norwegian krone	4,691	3,544
Swedish krona	908	1,703
Swiss franc	18,458	17,741
	-----	-----
	112,893	94,580
	=====	=====

Other price risk – exposure to investments sensitivity analysis

Based on the investments held and share prices at 31 December 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 £101,111,000 (2016: £86,275,000). A decrease of 10% in share price 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 December 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 £5,687,000 (2016: £3,879,000). A decrease of 10% in the share prices would have had an equal and opposite effect.

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 Notes 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.

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) above. The table below sets out the Company's fair value hierarchy:

	2017			2016		
	level 1 £'000	level 2 £'000	total £'000	level 1 £'000	level 2 £'000	total £'000
Financial assets at fair value through profit or loss						
Investments	1,011,114	–	1,011,114	862,747	–	862,747
Derivative instrument assets	–	3,652	3,652	–	–	–
	-----	-----	-----	-----	-----	-----
	1,011,114	3,652	1,014,766	862,747	–	862,747
	=====	=====	=====	=====	=====	=====
Financial liabilities at fair value through profit or loss						
Derivative instrument liabilities	(1,580)	(4,995)	(6,575)	–	(577)	(577)
	=====	=====	=====	=====	=====	=====

18 Capital Resources and Gearing

The Company does not have any externally imposed capital requirements. The capital of the Company comprises its share capital and reserves, as disclosed in the Balance Sheet above, and its gearing which is managed through the use of derivative instruments. Financial resources are managed in accordance with the Company's investment policy and in pursuit of its investment objective, both of which are detailed in the Strategic Report in the Annual Report. The principal risks and their management are disclosed in the Strategic Report and in Note 17 above.

The Company's gearing at the end of the year is shown below:

	2017			
	gross asset exposure		net asset exposure	
	£'000	% ¹	£'000	% ¹
Investments	1,011,114	98.1	1,011,114	98.1
Long CFDs	36,169	3.5	36,169	3.5
Long futures	69,693	6.8	69,693	6.8
	=====	=====	=====	=====
Total long exposures	1,116,976	108.4	1,116,976	108.4
Short CFDs	48,990	4.8	(48,990)	(4.8)
	-----	-----	-----	-----
Gross/net asset exposure	1,165,966	113.2	1,067,986	103.6
	-----	-----	-----	-----
Shareholders' funds	1,030,048		1,030,048	
	-----	-----	-----	-----
Gearing ²		13.2		3.6

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

2 Gearing is the amount by which gross/net asset exposure exceeds Shareholders' funds expressed as a percentage of Shareholders' funds

	2016			
	gross asset exposure		net asset exposure	
	£'000	% ¹	£'000	% ¹
Investments	862,747	98.6	862,747	98.6
Long CFDs	38,785	4.4	38,785	4.4
	-----	-----	-----	-----
Gross/net asset exposure	901,532	103.0	901,532	103.0
	-----	-----	-----	-----
Shareholders' funds	875,351		875,351	
	-----		-----	
Gearing ²		3.0		3.0
		-----		-----

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

2 Gearing is the amount by which gross/net 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 ("FIL"). Both companies are Fidelity group companies. Details of the fee arrangements are given in the Directors' Report, in the Annual Report, and Note 4 above. During the year fees for portfolio management services amounted to £8,281,000 (2016: £6,972,000). At the Balance Sheet date, fees for portfolio management services of £2,185,000 (2016: £1,848,000) were accrued and included in creditors and accruals. FIL also provides the Company with marketing services. The total amount payable for these services during the year was £144,000 (2016: £229,000). At the Balance Sheet date £1,000 (2016: £21,000) for marketing services was accrued and included in creditors and accruals.

Disclosures of the Directors' interests in the ordinary shares of the Company and Directors' fees and taxable benefits relating to reasonable travel expenses payable to the Directors are given in the Directors' Remuneration Report in the Annual Report. The Directors received compensation of £168,000 (2016: £162,000). In addition to the fees and taxable benefits disclosed in the Directors' Remuneration Report, this amount includes £15,000 (2016: £14,000) of employers' National Insurance Contributions paid by the Company.

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 31 December 2017 are an abridged version of the Company's full Annual Report and Financial Statements, which have been approved and audited with an unqualified report. The 2016 and 2017 statutory accounts received unqualified reports from the Company's Auditor and did not include any reference to matters to which the Auditor drew attention by way of emphasis without qualifying the reports, and did not contain a statement under s.498 of the Companies Act 2006. The financial information for 2016 is derived from the statutory accounts for 2016 which have been delivered to the Registrar of Companies. The 2017 Financial Statements will be filed with the Registrar of Companies in due course.

A copy of the Annual Report will shortly be submitted to the National Storage Mechanism and will be available for inspection at:
www.morningstar.co.uk/uk/NSM

The Annual Report will be posted to shareholders later this month and additional copies will be available from the registered office of the Company and on the Company's website: where up to date information on the Company, including daily NAV and share prices, factsheets and other information can also be found.

The Annual General Meeting will be held at 12 noon on 14 May 2018 at 25 Cannon Street, London EC4M 5TA.

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.

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