

Fidelity Special Values PLC

LEI: 549300XODK7D2K2KYV43

Final Results for the year ended 31 August 2017

Financial Highlights:

- The Board recommends a final dividend of 2.80 pence per share and together with the interim dividend of 1.80 pence per share (totaling 4.60 pence) represents an increase of 24.3% to the total dividend paid in 2016
- The Company delivered positive outperformance in its annual results for the year ended 31 August 2017, resulting in a net asset value (“NAV”) total return of +19.1%
- The discount narrowed from 10% to 3.2% over the period, as a result of the share price total return of +28.1%, significantly outperforming the Company's Benchmark Index which returned +14.3%.
- The financial year marked the fifth anniversary of Alex Wright's tenure as Portfolio Manager. Over this period, NAV and share price returns were an impressive +125.2% and +159.3% respectively compared to the Benchmark Index return of +63.7%.
- Strong stock selection among financials continues to drive outperformance

Contacts

For further information, please contact:

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Chairman's Statement

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

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

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

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

Performance

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

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

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

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

Outlook

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

OTHER MATTERS

Discount, Share Repurchases and Issues

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

help stabilise the share price discount.

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

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

Gearing

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

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

Dividend

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

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

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

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

Board of Directors

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

Annual General Meeting

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

It is the most important meeting that we, the Directors of your Company, have with our Shareholders each year. Alex Wright, the Portfolio Manager, will be making a

presentation to Shareholders, highlighting the achievements and challenges of the year past and the prospects for the year to come. We hope as many of you as possible are able to come and join us for this occasion.

Andy Irvine

Chairman

1 November 2017

Portfolio Manager's Review

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

Introduction

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

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

UK Market and Economic Review

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

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

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

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

Portfolio Review

We have had some very strong contributions from stock selection which has allowed us to deliver another year of strong absolute returns which were well above the overall market. This was especially true of our positions in the financial sector, with key contributors including Burford Capital, Citigroup and esure Group. Litigation finance company Burford Capital was a top contributor at a stock level. Burford is an early mover and global leader in a new and fragmented industry. As a fully integrated company, with legal expertise and due diligence in house as well as a good brand, Burford is in the best position to benefit from an increase in penetration of litigation financing. US banking major Citigroup was another key contributor to returns as the increase in US interest rates and expectations that banks could benefit from potentially lower taxes and a friendlier regulatory environment under Trump supported banking shares. Following the completion of the US Federal Reserve's latest stress test (in June 2016), Citigroup has now

gained approval to significantly increase capital returns to shareholders over the next year. The company is over-capitalised, with a core tier 1 ratio of 13% – the highest of any major US bank. Citigroup stands out globally as a very attractively valued stock in a strong end-market with considerable balance-sheet optionality. Car insurer esure's profits beat consensus expectations as it was able to raise prices and take advantage of its high solvency ratio to pay a larger dividend than expected. The holding in Coats Group, a maker of threads and zips, rose as it announced plans to inject £255 million into its pension schemes to settle a regulatory dispute. The settlement is expected to allow the company to lift a suspension on dividend payments.

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

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

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

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

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

Outlook

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

Alex Wright

Portfolio Manager

1 November 2017

Strategic Report

Principal Risks and Uncertainties and Risk Management

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

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

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

EXTERNAL RISKS

Principal Risks

Description and Risk Mitigation

Market Risk

The Company’s assets consist mainly of listed securities and the principal risks are therefore market related such as market downturn, interest rate movements and deflation/inflation.

Risks to which the Company is exposed to in the market risk category are included in Note 17 to the Financial Statements below together with summaries of the policies for managing these risks.

Share Price Risk

Share prices are volatile and volatility is a risk for the short term Shareholder likely to want to sell in the near future. The Board does not believe that volatility would be a significant risk for the long term Shareholder.

Discount Control Risk

The price of the Company’s shares and its discount to NAV are factors which are not within the Company’s total control. However, the Board can influence this through its share repurchase policy and through creating demand for shares through good performance and an active investor relations program.

The Company’s share price, NAV and discount volatility are monitored daily by the Manager and considered by the Board regularly.

Regulatory Risk

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

Cybercrime Risk

The risk posed by cybercrime is rated as significant and the Board receives regular updates from the Manager in respect of the type and possible scale of cyberattacks. The Manager’s technology team has developed a number of initiatives and controls in order to provide enhanced mitigating protection to this ever increasing threat.

INTERNAL RISKS

Principal Risks

Investment Management Risk

Description and Risk Mitigation

The Board relies on the Portfolio Manager's skills and judgement to make investment decisions based on research and analysis of individual stocks and sectors. The Board reviews the performance of the asset value of the portfolio against the Company's Benchmark Index and its competitors and also considers the outlook for the market with the Portfolio Manager at each Board meeting. The emphasis is on long term investment performance as there is a risk for the Company of volatility of performance in the shorter term.

Operational Risks – Service Providers

The Company relies on a number of third party service providers, principally the Manager, Registrar, Custodian and Depositary. It is dependent on the effective operation of the Manager's control systems and those of its service providers with regard to the security of the Company's assets, dealing procedures, accounting records and the maintenance of regulatory and legal requirements. They are all subject to a risk-based program of internal audits by the Manager. In addition, service providers' own internal control reports are received by the Board on an annual basis and any concerns investigated. Risks associated with these services are generally rated as low, although the financial consequences could be serious, including reputational damage to the Company.

Continuation Vote

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

Viability Statement

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

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

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

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

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

In addition, the Directors' assessment of the Company's ability to operate in the foreseeable future is included in the Going Concern Statement 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.

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

In preparing these Financial Statements the Directors are required to:

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

The Directors are responsible for ensuring that adequate accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

The Directors confirm that to the best of their knowledge:

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

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

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

Andy Irvine
Chairman

Income Statement

for the year ended 31 August 2017

	Notes	Year ended 31 August 2017			Year ended 31 August 2016		
		revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Gains on investments	10	–	99,508	99,508	–	43,853	43,853
Gains on long CFDs	11	–	4,075	4,075	–	1,328	1,328
Losses on short CFDs, futures and options	11	–	(9,066)	(9,066)	–	(3,840)	(3,840)
Investment and derivative income	3	21,146	–	21,146	18,022	–	18,022
Other interest	3	268	–	268	127	–	127
Investment management fees	4	(6,076)	–	(6,076)	(5,186)	–	(5,186)
Other expenses	5	(615)	–	(615)	(694)	–	(694)
Foreign exchange gains/(losses)		–	229	229	28	(285)	(257)
		-----	-----	-----	-----	-----	-----
Net return on ordinary activities before finance costs and taxation		14,723	94,746	109,469	12,297	41,056	53,353
Finance costs	6	(346)	–	(346)	(1,085)	–	(1,085)
		-----	-----	-----	-----	-----	-----
Net return on ordinary activities before taxation		14,377	94,746	109,123	11,212	41,056	52,268
Taxation on return on ordinary activities	7	(284)	–	(284)	(175)	–	(175)
		-----	-----	-----	-----	-----	-----
Net return on ordinary activities after taxation for the year		14,093	94,746	108,839	11,037	41,056	52,093
		-----	-----	-----	-----	-----	-----
Return per ordinary share	8	5.33p	35.80p	41.13p	4.15p	15.42p	19.57p
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The Company does not have any other comprehensive income. Accordingly the net return on ordinary activities after taxation for the year is also the total comprehensive income for the year and no separate Statement of Comprehensive Income has been presented.

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

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

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

Balance Sheet

as at 31 August 2017

Company number 2972628

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

The Financial Statements above and below were approved by the Board of Directors on 1 November 2017 and were signed on its behalf by:

Andy Irvine

Chairman

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

Statement of Changes in Equity
for the year ended 31 August 2017

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

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

Notes to the Financial Statements

1 Principal Activity

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

2 Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Listed investments and AIM quoted investments are valued at bid prices, or last market prices, depending on the convention of the exchange on which they are listed, or otherwise, at fair value based on published price quotations; and
- Unlisted investments, are investments which are not quoted, or are not frequently traded, and are stated at the Directors best estimate of fair value. The Manager's Fair Value Committee, which is independent of the Portfolio Manager's team, provides a recommendation of fair values to the Directors based on recognised valuation techniques that take account of the cost of the investment and recent arm's length transactions in the same or similar investments.

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

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

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

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

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

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

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

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

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

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

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

3 Income

	Year ended	Year ended
	31.08.17	31.08.16
	£'000	£'000
Investment income		
UK dividends	12,339	9,327
UK scrip dividends	90	95

Overseas dividends	3,712	3,546
Overseas scrip dividends	1,254	862
Debt security interest	564	384
	-----	-----
	17,959	14,214
	=====	=====
Derivative income/(expenses)		
Dividends received on long CFDs	3,776	4,937
Dividends and interest paid on short CFDs	(589)	(1,129)
	-----	-----
	3,187	3,808
	-----	-----
Investment and net derivative income	21,146	18,022
	=====	=====
Other interest		
Interest received on short CFDs	132	56
Interest received on bank deposits and money market funds	136	71
	-----	-----
	268	127
	-----	-----
Total investment and net derivative income and other interest	21,414	18,149
	=====	=====

4 Investment Management Fees

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

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

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

5 Other Expenses

Year ended 31.08.17	Year ended 31.08.16
------------------------	------------------------

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

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

2 The VAT payable on audit fees is included in sundry other expenses.

6 Finance Costs

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

7 Taxation on Return on Ordinary Activities

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

b) Factors affecting the taxation charge for the year

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

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

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

c) Deferred taxation

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

8 Return per Ordinary Share

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

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

9 Dividends Paid to Shareholders

	Year ended 31.08.17 £'000	Year ended 31.08.16 £'000
Dividends paid		
Interim dividend of 1.80 pence per ordinary share paid for the year ended 31 August 2017	4,761	–
Final dividend of 2.70 pence per ordinary share paid for the year ended 31 August 2016	7,143	–

Interim dividend of 1.00 pence per ordinary share paid for the year ended 31 August 2016	–	2,659
Dividend of 2.35 pence per ordinary share paid for the year ended 31 August 2015	–	6,263

11,904	8,922
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Dividend proposed

Final dividend proposed of 2.80 pence per ordinary share for the year ended 31 August 2017

7,406	–
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Final dividend of 2.70 pence per ordinary share paid for the year ended 31 August 2016

–	7,143
---	-------

7,406	7,143
--------------	--------------

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

10 Investments

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

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

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

11 Derivative Instruments

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

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

	2017	2016
	gross asset	gross asset
	exposure	exposure
	fair value	fair value
	£'000	£'000
At the year end the Company held the following derivative instruments		
Long CFDs	6,313	5,925
Short CFDs	(4,897)	(1,197)
Index futures – hedging exposures	259	(2,342)
	-----	-----
	1,675	2,386
	=====	=====
	81,080	128,919
	=====	=====

12 Debtors

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

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

13 Other Creditors

	2017	2016
	£'000	£'000
Securities purchased for future settlement	685	911
Creditors and accruals	1,354	1,468
	-----	-----

		2,039		2,379
		=====		=====
		2017		2016
	number of shares	£'000	number of shares	£'000
Issued, allotted and fully paid ordinary shares of 5 pence each				
Held outside Treasury				
Beginning of the year	265,349,480	13,267	266,524,480	13,326
Ordinary shares repurchased into Treasury	(850,000)	(42)	(1,175,000)	(59)
	-----	-----	-----	-----
End of the year	264,499,480	13,225	265,349,480	13,267
	=====	=====	=====	=====
Held in Treasury				
Beginning of the year	5,295,000	265	4,120,000	206
Ordinary shares repurchased into Treasury	850,000	42	1,175,000	59
	-----	-----	-----	-----
End of the year	6,145,000	307	5,295,000	265
	=====	=====	=====	=====
Total share capital	270,644,480	13,532	270,644,480	13,532
	=====	=====	=====	=====

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

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

15 Reserves

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

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

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

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

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

16 Net Asset Value per Ordinary Share

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

17 Financial Instruments and Risk Management

Management of risk

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

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

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

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

Market price risk

Interest rate risk

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

Interest rate risk exposure

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

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

Foreign currency risk

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

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

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

Currency exposure of financial assets

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

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

	653,972	53,267	17,925	1,969	727,133
	=====	=====	=====	=====	=====
					2016
	investments at	long exposure		cash at	
	fair value	to derivative		bank	total
	£'000	instruments ¹	debtors ²	£'000	£'000
US dollar	95,995	1,480	120	167	97,762
Euro	32,228	44,410	98	–	76,736
Canadian dollar	6,014	–	44	–	6,058
Other foreign currencies	78	–	15	13	106
UK sterling	404,781	60,902	36,442	2,289	504,414
	-----	-----	-----	-----	-----
	539,096	106,792	36,719	2,469	685,076
	=====	=====	=====	=====	=====

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

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

Currency exposure of financial liabilities

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

	2017		
	short	creditors	total
	exposure to		
	derivative		
	instruments*		
	£'000	£'000	£'000
US dollar	3,227	44	3,271
Other foreign currencies	15,804	–	15,804
UK sterling	8,782	1,995	10,777
	-----	-----	-----
	27,813	2,039	29,852
	=====	=====	=====
			2016
	short		
	exposure to		
	derivative		
	instruments*	creditors	total

currency	£'000	£'000	£'000
US dollar	8,642	80	8,722
Other foreign currencies	9,409	37	9,446
UK sterling	4,076	2,262	6,338
	-----	-----	-----
	22,127	2,379	24,506
	=====	=====	=====

* The exposure to the market of short CFDs.

Other price risk

Other price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. The Board meets quarterly to consider the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective. The Manager is responsible for actively monitoring the existing portfolio selected in accordance with the overall asset allocation parameters described above and seeks to ensure that individual stocks also meet an acceptable risk/reward profile. Other price risks arising from derivative positions, mainly due to the underlying exposures, are estimated using Value at Risk and Stress Tests as set out in the Company's internal Derivative Risk Measurement and Management Document.

Liquidity risk

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

Liquidity risk exposure

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

Counterparty risk

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

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

Credit risk

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

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

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

RISK SENSITIVITY ANALYSIS

Interest rate risk sensitivity analysis

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

Foreign currency risk sensitivity analysis

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

Other price risk – exposure to investments sensitivity analysis

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

Other price risk – net exposure to derivative instruments sensitivity analysis

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

Fair Value of Financial Assets and Liabilities

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

Fair Value Hierarchy

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

Classification	Input
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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:

	level 1 £'000	level 2 £'000	level 3 £'000	2017 total £'000
Financial assets at fair value through profit or loss				
Investments	645,625	–	8,347	653,972
Derivative instrument assets	259	10,419	–	10,678
	-----	-----	-----	-----
	645,884	10,419	8,347	664,650
	=====	=====	=====	=====
Financial liabilities at fair value through profit or loss				
Derivative instrument liabilities	–	(9,003)	–	(9,003)
	=====	=====	=====	=====
				2016
	level 1 £'000	level 2 £'000	level 3 £'000	total £'000
Financial assets at fair value through profit or loss				
Investments	527,418	5,818	5,860	539,096
Derivative instrument assets	–	16,169	–	16,169
	-----	-----	-----	-----
	527,418	21,987	5,860	555,265
	=====	=====	=====	=====
Financial liabilities at fair value through profit or loss				
Derivative instrument liabilities	(2,342)	(11,441)	–	(13,783)
	=====	=====	=====	=====

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

	Year ended 31.08.17 level 3 £'000	Year ended 31.08.16 level 3 £'000
Beginning of the year	5,860	1,706
Purchases at cost	–	5,585
Investments written off	(6)	(6)
Transfers into level 3 ¹	1,599	–
Transfers out of level 3 ²	–	(1,463)

Movement in investment holding gains	894	38
End of the year	8,347	5,860

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

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

18 Capital Resources and Gearing

The Company does not have any externally imposed capital requirements. The capital of the Company comprises its gearing, which is managed by the use of derivative instruments, and its issued share capital and reserves as disclosed in the Balance Sheet above. It is managed in accordance with the Company's investment policy in pursuit of its investment objective, both of which are detailed in the full 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 gross gearing and net gearing at the end of the year are shown below:

	2017			
	gross asset exposure		net asset exposure	
	£'000	% ¹	£'000	% ¹
Investments	653,972	97.1	653,972	97.1
Long CFDs	97,012	14.4	97,012	14.4
Total long exposures before hedges	750,984	111.5	750,984	111.5
Less: Index futures – hedging exposures ²	(43,745)	(6.5)	(43,745)	(6.5)
Long exposures after the netting of hedges	707,239	105.0	707,239	105.0
Short exposures – short CFDs	27,813	4.1	(27,813)	(4.1)
Exposure after the netting of hedges	735,052	109.1	679,426	100.9
Shareholders' Funds	673,502		673,502	
Gearing³		gross gearing 9.1%		net gearing 0.9%

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

2 Hedging exposures reduce exposure to the market and gearing.

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

	2016		2016	
	gross asset exposure £'000	% ¹	net asset exposure £'000	% ¹
Investments	539,096	93.2	539,096	93.2
Long CFDs	152,398	26.4	152,398	26.4
Total long exposures before hedges	691,494	119.6	691,494	119.6
Less: Index futures – hedging exposures ²	(45,606)	(7.9)	(45,606)	(7.9)
Long exposures after the netting of hedges	645,888	111.7	645,888	111.7
Short exposures – short CFDs	22,127	3.8	(22,127)	(3.8)
Exposure after the netting of hedges	668,015	115.5	623,761	107.9
Shareholders' Funds	578,291		578,291	
Gearing³		gross gearing 15.5%		net gearing 7.9%

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

2 Hedging exposures reduce exposure to the market and gearing.

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

19 Transactions with the Manager and Related Parties

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

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

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 31 August 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: 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.

The Annual General Meeting will be held at 11.30 am on 11 December 2017 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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