

Fidelity Special Values PLC

Final Results for the year ended 31 August 2018

Financial Highlights:

- Fidelity Special Values PLC's share price returned +14.0%, well above the +4.7% return of the Benchmark index
- The Company's discount narrowed from 3.2% moving into a premium of 1.5%
- Key performance drivers include holdings in Ladbrokes, Pearson and Royal Dutch Shell
- The Board recommends a final dividend of 3.15 pence per share which together with the interim dividend of 1.85 pence per share (totaling 5.00 pence), represents an increase of 8.7% to the total dividend paid in 2017

Contacts

For further information, please contact:

Bonita Guntrip
Senior Company Secretary
01737 837320
FIL Investments International

Chairman's Statement

Fidelity Special Values PLC aims to achieve long term capital growth for Shareholders by investing in special situations. 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. Alex follows the same successful investment philosophy as Anthony Bolton, the Company's first portfolio manager – that of value contrarian investing, looking for companies whose potential for share price growth and recovery has been overlooked by the market. He then holds these companies until their potential value is recognised by the wider market. Alex only invests in companies where he understands the potential downside risk to limit the possibility of losses.

The Board believes that 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 8.7% over the year and the share price by an impressive 14.0%, both well above the 4.7% return of the Benchmark Index (all performance data on a total return basis). As a result of the share price performance, the Company's discount narrowed from 3.2% at the start of the reporting year into a premium of 1.5% at the end of the reporting year.

As Alex Wright completes his sixth year as the Portfolio Manager, the NAV performance of the Company continues to be impressive, having increased in absolute terms during this period at an annualised rate of 16.1%, significantly ahead of the Benchmark Index return of 9.4% p.a. On a cumulative basis over Alex's tenure, this represents a NAV total return of 144.7% compared to an Index return of 71.3%. The share price total return was 195.7%.

Alex's stock selection abilities have once again come to the fore in this reporting year, resulting in the outperformance against the Index. It has been a difficult year for stock pickers as external headwinds and a weakening domestic macroeconomic backdrop made it a tough environment for investment managers, particularly in the first half of the period. Geo-political noise, rising global trade friction and Brexit all contributed to this uncertain environment. Nevertheless, this also presented pockets of opportunities across the spectrum, particularly those areas where market participants have tended to ignore underlying value. On a more positive note, the weakness in sterling has provided the tailwind for many of the companies that generate a large proportion of their revenues in foreign currencies. It is against this backdrop that Alex's focus on his investment thesis has succeeded in generating strong contributions from many of our key portfolio holdings over the review period.

The contrarian nature of the Company's investment selection means that the Board does not expect a consistent outperformance against the Benchmark Index every single year, although it believes 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's shares.

Outlook

The outlook for the global economy appears to have moderated slightly and financial conditions have tightened somewhat. However, growth is expected to remain relatively robust. The outlook for investment in the UK is more subdued than this time last year due to the persistent economic and political uncertainty. We have seen financial conditions in the UK tightening as well, albeit slightly, but it remains encouragingly accommodative. Given this environment, a more discriminating approach will be required to separate the best opportunities from those that could disappoint. Alex will continue to focus on strong stock picking opportunities and risk management and aims to deliver a positive relative performance of the Company's NAV. The Board feel that the strategy in place is well aligned with the long term interests of the Company's Shareholders.

OTHER MATTERS

Investment Objective

The European Union Packaged Retail and Insurance-based Investment Products ("PRIIPs") Regulation introduced the Key Information Document ("KID") which is a new regulatory requirement since the start of 2018. The format of the KID is largely prescribed and it is available on the Company's website (www.fidelityinvestmenttrusts.com). In order to better align the Company's investment objective with the phraseology of the KID, the Board is amending the investment objective of the Company from:

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

to

“The Company aims to achieve long term capital growth primarily through investment in equities (and their related financial instruments) of UK companies which the Investment Manager believes to be undervalued or where the potential has not been recognised by the market.”

The change to the Company's investment objective and the minor consequential changes to the investment policy are not material changes and are only being made to make the objective more consistent with the KID. The change in the investment objective does not imply any change to the way that the Portfolio Manager already invests on your behalf and the Board believes that the change better reflects the Company's investment process. A summary of the key aspects of the investment policy can be found on the “At a Glance” page inside the front cover of the Annual Report. The change will be effective from the date of this Annual Report.

Management Fee

I am pleased to report that, following a review of the management fees payable to Fidelity, the Board has agreed a new revised tiered fee structure with effect from 1 September 2018. The current fee of 0.875% of net assets will be reduced to a new rate of 0.85% on the first £700 million of net assets, and a further reduction to 0.75% of net assets in excess of £700 million. In addition, the fixed annual fee of £600,000 for services other than portfolio management (to include company secretarial, fund accounting, taxation, promotional and corporate advisory services) will reduce by £500,000 to £100,000 per annum. Based on net assets as at 31 August 2018, the new fee arrangement represents an estimated saving of 10% per annum.

There will be no change in the investment process as a result of the new fee arrangement.

Markets in Financial Instruments Directive (“MiFID II”)

With effect from 3 January 2018, the MiFID II regulation changed the way that external investment research is paid for. Previously this research was paid for on a commission basis as part of the transaction costs and this is no longer allowed. Fidelity uses external investment research to access specific technical expertise for the benefit of the portfolio, and the Board is pleased to confirm that Fidelity has agreed to cover these costs under its existing management agreement rather than pass on the costs to the Company. This represents an estimated ongoing saving to the Company of between 0.02% and 0.03% per annum which will be directly reflected in the NAV of the Company.

Discount/Premium and Share Repurchases/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 shares to help stabilise the share price discount.

The level of discount narrowed from 3.2% at the start of the reporting year to a premium of 1.5% as at 31 August 2018. This narrowing of discount and the Company trading at a premium, gave rise to a share price total return of 14.0% for the year, well ahead of the NAV total return of 8.7%. Over the year to 31 August 2018, the Company's shares traded within a range of a 3.6% premium and a 6.3% discount.

The Board will approve the issue of shares from Treasury if the Company's shares are trading at a sufficient premium to ensure that the issue of shares is not dilutive. I am pleased to say that in the reporting year, there have been periods where the Company's shares have traded at a sufficient level of premium and therefore the Company issued 2,050,000 ordinary shares from Treasury. Since the year end and as at the date of this report, the Company has issued a further 725,000 ordinary shares from Treasury.

The Company did not carry out any share repurchases in the reporting year and none have been repurchased since then and as at the date of this report.

The Board continues to monitor the discount/premium closely and will take action when it feels it will be effective.

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 period of weaker performance in the market, the Portfolio Manager has increased the Company's net gearing from 0.9% as at last year end to 6.6% as at 31 August 2018. Net gearing is defined in the Glossary of Terms in the Annual Report. Note 18 below shows the Company's gross and net gearing at the end of the reporting year.

It is the current intention of the Board that, in normal market conditions, the Portfolio Manager will maintain net gearing in the range of 0% to 20%. The maximum level of gross gearing is 40%.

Dividend

The Board's policy is to pay dividends twice yearly in order to smooth the dividend payment for the reporting year. The Company's revenue return for the year to 31 August 2018 was 5.70 pence per share. An interim dividend of 1.85 pence per share (2017: 1.80 pence) was paid on 19 June 2018 and the Board recommends a final dividend of 3.15 pence per share for the year ended 31 August 2018 (2017: 2.80 pence) for approval by Shareholders at the AGM on 12 December 2018. The interim and final dividends (total of 5.00 pence) represent a total increase of 8.7% over the 4.60 pence paid for the year ended 31 August 2017. The final dividend will be payable on 16 January 2019 to Shareholders on the register at close of business on 7 December 2018 (ex-dividend date 6 December 2018).

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

Board of Directors

Nicky McCabe retired from Fidelity International at the end of December 2017 and remains on the Board as a Non-Executive Director. She will remain non-independent due to her past employment with the Manager and also because of her tenure on the Board. However, the Board was 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. The Board, between them, 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 Wednesday 12 December 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.

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. He will be very happy to answer any questions that Shareholders may have. We hope as many of you as possible are able to come and join us for this occasion.

Andy Irvine

Chairman

31 October 2018

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.

Question

How has the Company performed over the year under review?

Answer

The Company's share price return of 14.0% and the NAV return of 8.7% (both on a total return basis) for the year were well above the FTSE All-Share Index (Benchmark) which returned 4.7%. A mixture of good stock selection and avoiding some of the market's weaker sectors allowed us to deliver another year of performance ahead of the wider market.

Question

And what about the market environment more broadly?

Answer

The UK stock market performed strongly, particularly in the second half of the review period, supported by a weak sterling, which buoyed shares of companies that generate sales in foreign currencies. However, we have seen headwinds in the form of escalating global trade friction, while there remains considerable uncertainty around the UK's negotiations to exit the European Union (EU).

Question

How has Brexit impacted the UK markets and the Company?

Answer

The uncertainty surrounding Brexit continues. A recurring question I have been asked recently has been whether I am finding opportunities among apparently unloved UK small and medium sized companies, particularly post Brexit. This reflects a strong consensus belief, reinforced by fund manager surveys and press coverage, that UK small and medium sized companies are deeply out of favour and under-owned compared to their larger and more international cousins in the FTSE 100. Looking at performance and valuation data since Brexit (June 2016), we see a different perspective on this one-sided narrative. In reality, small and medium sized companies have outperformed the FTSE 100 since June 2016, continuing the trend of previous years.

Although all of the market has de-rated, the FTSE 100 is now much cheaper on forward earnings estimates than the more domestic FTSE 250 and I have incrementally been finding more interesting new ideas in large sized companies.

Question

What were the drivers of performance?

Answer

We benefitted from holding Ladbrokes, which was acquired by GVC Holdings. Ladbrokes is a stock I have used as an example of a deeply unloved UK domestic consumer stock which the market fundamentally misunderstood but where due diligence and scenario analysis by our analyst uncovered significant value and limited downside. This value was ultimately recognised by a corporate buyer. We also received a bid for Shire, from Japanese group Takeda, following a protracted period of underperformance for the pharmaceutical company. Our position in Royal Dutch Shell performed well over the period, which benefitted from rising oil prices as well as improved cash generation. The valuation continues to look attractive and we remain invested. We have also increased our position in Pearson, which has performed well over the year, but remains deeply unloved, despite what we see as an exciting future for the company.

We suffered negative contribution from owning BT and Leonardo. We have now sold out of both companies.

Question

And what about your exposure to financials?

Answer

Financials account for about 39% of the portfolio (compared to 26% in the Index), spread across banks, financial services and diversified financials. In banks, we hold Citigroup, Lloyds Banking Group, Bank of Ireland Group and RBS Group. These stocks are trading on cheap valuations. There has been a strong pick-up in their earnings and banks have been steadily rebuilding their balance sheets following the financial crash of 2008. However, this is not fully reflected in their share prices. I also hold positions in insurers such as Phoenix Group Holdings and Aviva which are more defensive businesses than banks but also trade at very attractive valuations.

Question

Do you tend to focus more on stock-specific changes or those in whole industries?

Answer

It depends. Whereas our positions in the oil and banking sectors rest on a combination of stock-specific changes and industry change, our positions in defensive sectors are more stock-specific. We remain underweight in consumer goods, although following the dramatic sell off in tobacco in the market, the Company bought a 1% position in Imperial Brands, which currently trades on a 7% dividend yield (comfortably covered by free cash flow). This is unlikely to become a large position for the Company given the negative structural trends in tobacco and high levels of leverage. However, weak sentiment and a low valuation, suggests an attractive risk/reward for the stock today. The Company has also bought a new position in Irish brewer C&C Group following their acquisition of distributor Matthew Clark, which I believe transforms their previously struggling UK business. These are examples of more stock specific change stories.

Question

Have there been any major changes to your strategy?

Answer

No. My process continues to target unloved stocks which are undergoing positive change that has not yet been recognised by the market. Given the sheer number of small and medium sized companies, and lower levels of scrutiny among other investors, I expect the portfolio will always have a significant weighting to small and medium sized companies. However, at the moment, weightings are likely to be influenced by relative valuations between different size categories, as well as the outlook for different industries and companies.

Question

What is your outlook for the next twelve months?

Answer

In the 6 years I have been managing the Company's portfolio, the UK market has delivered returns of almost 10% per year on an annualised basis. This is well above very long term historical averages, and it would probably not be wise to expect such unusually high returns to continue indefinitely.

However, I am feeling increasingly positive on the performance outlook for the UK market – particularly relative to other markets. The reasons I am positive chiefly relate to how negative everybody else seems to be. Most investors I meet are underweight in UK stocks, and many global investors avoid holding UK stocks at all if they can help it. The Brexit narrative has meant UK assets have become deeply unloved, and therefore interesting from a contrarian point of view. One thing I have learnt from investing in unloved companies is that you shouldn't necessarily wait for the good news to become obvious before investing. By investing when all the bad news is 'in the price' and no good news is expected at all, then you put the odds in your favour. I believe that whatever the outcome of the negotiations with the EU, any improvement in clarity could result in a period of stronger performance for the UK market. Investors will use any sort of agreement as a catalyst to revisit the UK market, and find that it contains many good quality undervalued companies, particularly compared to other developed markets, such as the US, where valuations are much higher.

That said, I still believe that a selective approach remains important. Not all stocks are equally attractive, and although many domestic businesses are being unfairly ignored, others are structurally compromised, financially unsound and therefore best avoided. Attractive valuations are now to be found in more defensive and large-cap parts of the market, although the financials sector remains a fertile source of ideas for my investment process. As ever, I remain focused on building a portfolio of unloved stocks with potential for positive change. There is certainly a plentiful supply of unloved companies in the UK market today, and my task is to identify those with the strongest margin of safety and the best chances of positive change.

Alex Wright

Portfolio Manager

31 October 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.

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

INTERNAL RISKS

Principal Risks

Description and Risk Mitigation

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

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

Continuation Vote

A continuation vote takes place every three years. There is a risk that Shareholders do not vote in favour of continuation during periods when performance of the Company's NAV and share price is poor. At the AGM held on 13 December 2016, 99.97% of Shareholders voted in favour of the continuation of the Company. The next continuation vote will 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, as set out above, and their potential impact;
- The future demand for the Company's shares;
- The Company's share price relative 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 over the five year reporting period to 31 August 2018, with a NAV total return of 69.0%, a share price total return of 81.3% and a Benchmark Index return of 44.1%. 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 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 and the Board expect 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 31 October 2018 and signed on its behalf by:

Andy Irvine

Chairman

Income Statement

for the year ended 31 August 2018

	Notes	year ended 31 August 2018			year ended 31 August 2017		
		revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Gains on investments	10	–	48,288	48,288	–	99,508	99,508
(Losses)/gains on long CFDs	11	–	(3,022)	(3,022)	–	4,075	4,075
Losses on short CFDs, futures and options	11	–	(2,718)	(2,718)	–	(9,066)	(9,066)
Investment and derivative income	3	22,608	–	22,608	21,146	–	21,146
Other interest	3	366	–	366	268	–	268
Investment management fees	4	(6,707)	–	(6,707)	(6,076)	–	(6,076)
Other expenses	5	(640)	–	(640)	(615)	–	(615)
Foreign exchange gains		–	618	618	–	229	229
		-----	-----	-----	-----	-----	-----
Net return on ordinary activities before finance costs and taxation		15,627	43,166	58,793	14,723	94,746	109,469
Finance costs	6	(342)	–	(342)	(346)	–	(346)
		=====	=====	=====	=====	=====	=====
Net return on ordinary activities before taxation		15,285	43,166	58,451	14,377	94,746	109,123
Taxation on return on ordinary activities	7	(177)	–	(177)	(284)	–	(284)
		=====	=====	=====	=====	=====	=====
Net return on ordinary activities after taxation for the year		15,108	43,166	58,274	14,093	94,746	108,839
		=====	=====	=====	=====	=====	=====
Return per ordinary share	8	5.70p	16.29p	21.99p	5.33p	35.80p	41.13p
		=====	=====	=====	=====	=====	=====

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.

Balance Sheet

as at 31 August 2018

Company number 2972628

	Notes	2018 £'000	2017 £'000
Fixed assets			
Investments	10	704,997	653,972
		=====	=====
Current assets			
Derivative instruments	11	4,939	10,678
Debtors	12	4,043	4,743
Amounts held at futures clearing houses and brokers		2,235	1,386
Fidelity Institutional Liquidity Fund		14,588	11,796
Cash at bank		2,303	1,969
		-----	-----
		28,108	30,572
		=====	=====
Creditors			
Derivative instruments	11	(5,371)	(9,003)
Other creditors	13	(2,764)	(2,039)
		-----	-----
		(8,135)	(11,042)
		=====	=====
Net current assets		19,973	19,530
		=====	=====
Net assets		724,970	673,502
		=====	=====
Capital and reserves			
Share capital	14	13,532	13,532
Share premium account	15	95,940	95,896
Capital redemption reserve	15	3,256	3,256
Other non-distributable reserve	15	5,152	5,152
Capital reserve	15	591,842	543,218
Revenue reserve	15	15,248	12,448
		-----	-----
Total Shareholders' funds		724,970	673,502
		=====	=====
Net asset value per ordinary share	16	271.98p	254.63p
		=====	=====

The Financial Statements above and below were approved by the Board of Directors on 31 October 2018 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 2018

	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 2017		13,532	95,896	3,256	5,152	543,218	12,448	673,502
Issue of ordinary shares	14	–	44	–	–	5,458	–	5,502
Net return on ordinary activities after taxation for the year		–	–	–	–	43,166	15,108	58,274
Dividends paid to Shareholders	9	–	–	–	–	–	(12,308)	(12,308)
		-----	-----	-----	-----	-----	-----	-----
Total Shareholders' funds at 31 August 2018		13,532	95,940	3,256	5,152	591,842	15,248	724,970
		=====	=====	=====	=====	=====	=====	=====
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
		=====	=====	=====	=====	=====	=====	=====

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 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. The judgements required in order to determine the appropriate valuation methodology of level 3 financial instruments have a risk of causing an adjustment to the carrying amounts of assets. These judgements include making assessments of the possible valuations in the event of a listing or 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. 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 amount net of tax 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 long CFDs, which is accounted for on an accruals basis. 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 substantively enacted when the taxation is expected to be payable or recoverable. Deferred tax 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; 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 management team, provides a recommendation of fair values to the Directors based on recognised valuation techniques that take account of the cost of the investment, recent arm's length transactions in the same or similar investments and financial performance of the investment since purchase.

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, 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 or the recent transaction 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 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 carried at amortised cost.

o) Fidelity Institutional Liquidity Fund plc – 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. 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 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 or issuing 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 the level 3 investments which had unrealised investment holding losses of £594,000 (2017: gains £895,000).

3 Income

year ended	year ended
31.08.18	31.08.17
£'000	£'000

Investment income

UK dividends	13,273	12,339
UK scrip dividends	403	90
Overseas dividends	4,282	3,712
Overseas scrip dividends	990	1,254
Debt security interest	299	564

19,247	17,959
--------	--------

Derivative income/(expenses)

Dividends received on long CFDs	4,221	3,776
Dividends and interest paid on short CFDs	(860)	(589)

3,361	3,187
-------	-------

Investment and net derivative income

22,608	21,146
--------	--------

Other interest

Interest received on CFDs	79	132
Interest received on bank deposits and money market funds	287	136

366	268
-----	-----

Total investment and net derivative income and other interest

22,974	21,414
--------	--------

Special dividends of £7,023,000 (2017: £19,174,000) have been recognised in capital.

4 Investment Management Fees

	year ended	year ended
	31.08.18	31.08.17
	£'000	£'000
Portfolio management services	6,107	5,476
Non-portfolio management services*	600	600

6,707	6,076
-------	-------

Investment management fees

* 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 charged portfolio management services fees at an annual rate of 0.875% of net assets. Fees were paid quarterly in arrears and were calculated on the last business day of March, June, September and December.

5 Other Expenses

	year ended 31.08.18 £'000	year ended 31.08.17 £'000
AIC fees	21	21
Custody fees	18	15
Depository fees	57	52
Directors' expenses	20	17
Directors' fees ¹	137	120
Legal and professional fees	73	84
Marketing expenses	139	128
Printing and publication expenses	86	87
Registrars' fees	45	46
Fees payable to the Independent Auditor for the audit of the Financial Statements ²	24	24
Sundry other expenses	20	21
	-----	-----
	640	615
	=====	=====

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 31.08.18 £'000	year ended 31.08.17 £'000
Interest paid on long CFDs	342	346
	=====	=====

7 Taxation on Return on Ordinary Activities

	year ended 31 August 2018 £'000	year ended 31 August 2017 £'000
a) Analysis of the taxation charge for the year		
Overseas taxation	177	284
	-----	-----
Total taxation charge for the year (see Note 7b)	177	284
	=====	=====

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 19.00% (2017: 19.58%). 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 August 2018 £'000	year ended 31 August 2017 £'000
Net return on ordinary activities before taxation	58,451	109,123
	=====	=====
Net return on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19.00% (2017: 19.58%)	11,106	21,366
Effects of:		
Capital gains not taxable*	(8,202)	(18,551)
Income not taxable	(3,595)	(3,368)
Excess management expenses	691	553
Overseas taxation	177	284
	-----	-----
Total taxation charge for the year (see Note 7a)	177	284
	=====	=====

* 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 £11,509,000 (2017: £10,887,000), in respect of excess expenses of £67,703,000 (2017: £64,042,000) available to be set off against future taxable profits has not been recognised as it is unlikely that there will be sufficient future profits to utilise these expenses.

8 Return per Ordinary Share

	year ended 31 August 2018			year ended 31 August 2017		
	revenue	capital	total	revenue	capital	total
Return per ordinary share – basic and diluted	5.70p	16.29p	21.99p	5.33p	35.80p	41.13p
	=====	=====	=====	=====	=====	=====

The returns per ordinary share are based on, respectively; the net revenue return on ordinary activities after taxation for the year of £15,108,000 (2017: £14,093,000), the net capital return on ordinary activities after taxation for the year of £43,166,000 (2017: £94,746,000) and the net total return on ordinary activities after taxation for the year of £58,274,000 (2017: £108,839,000), and on 265,040,439 ordinary shares (2017: 264,637,494), being the weighted average number of ordinary shares held outside Treasury in issue during the year.

9 Dividends Paid to Shareholders

	year ended 31.08.18 £'000	year ended 31.08.17 £'000
Dividends paid		
Interim dividend of 1.85 pence per ordinary share paid for the year ended 31 August 2018	4,902	–
Final dividend of 2.80 pence per ordinary share paid for the year ended 31 August 2017	7,406	–
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
	-----	-----
	12,308	11,904
	=====	=====
Dividends proposed		
Final dividend proposed of 3.15 pence per ordinary share for the year ended 31 August 2018	8,419	–
Final dividend of 2.80 pence per ordinary share paid for the year ended 31 August 2017	–	7,406
	-----	-----
	8,419	7,406
	=====	=====

The Directors have proposed the payment of a final dividend for the year ended 31 August 2018 of 3.15 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 16 January 2019 to Shareholders on the register at the close of business on 7 December 2018 (ex-dividend date 6 December 2018).

10 Investments

	2018 £'000	2017 £'000
Listed investments	704,713	647,224
Unlisted investments	284	6,748
	-----	-----
Total investments at fair value	704,997	653,972
	=====	=====
Opening book cost	555,668	469,953
Opening investment holding gains	98,304	69,143
	-----	-----
Opening fair value	653,972	539,096
Movements in the year		
Purchases at cost	342,253	333,644
Sales – proceeds	(339,516)	(318,276)
Sales – gains	53,472	70,347
Movement in investment holding (losses)/gains	(5,184)	29,161
	-----	-----
Closing fair value	704,997	653,972

Closing book cost	611,877	555,668
Closing investment holding gains	93,120	98,304
Closing fair value	704,997	653,972
	=====	=====
	year ended	year ended
	31.08.18	31.08.17
	£'000	£'000

Gains on investments

Gains on sales of investments	53,472	70,347
Investment holding (losses)/gains	(5,184)	29,161
	48,288	99,508
	=====	=====

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:

	year ended	year ended
	31.08.18	31.08.17
	£'000	£'000
Purchases transaction costs	1,565	1,167
Sales transaction costs	184	270
	1,749	1,437
	=====	=====

The portfolio turnover rate for the year was 50.6% (2017: 54.2%).

11 Derivative Instruments

	year ended	year ended
	31.08.18	31.08.17
	£'000	£'000
(Losses)/gains on long CFDs		
Gains on long CFD positions closed	5,755	3,687
Movement on investment holding (losses)/gains	(8,777)	388
	(3,022)	4,075
	=====	=====
Losses on short CFDs, futures and options		
Losses on short CFD positions closed	(4,027)	(320)

Movement on investment holding gains/(losses) on short CFDs	4,835	(3,700)
Losses on futures contracts closed	(3,755)	(7,647)
Movement on investment holding gains on futures	799	2,601
Movement on investment holding losses on options	(570)	–
	-----	-----
	(2,718)	(9,066)
	=====	=====
	2018	2017
	fair value	fair value
	£'000	£'000

Derivative instruments recognised on the Balance Sheet

Derivative instrument assets	4,939	10,678
Derivative instrument liabilities	(5,371)	(9,003)
	-----	-----
	(432)	1,675
	=====	=====

	2018		2017	
	gross asset		gross asset	
	exposure	fair value	exposure	
	£'000	£'000	£'000	
At the year end the Company held the following derivative instruments				
Long CFDs	(2,464)	123,269	6,313	97,012
Short CFDs	(62)	14,065	(4,897)	27,813
Index futures – hedging exposures	1,058	(42,869)	259	(43,745)
Options	1,036	1,036	–	–
	-----	-----	-----	-----
	(432)	95,501	1,675	81,080
	=====	=====	=====	=====

12 Debtors

	2018	2017
	£'000	£'000
Securities sold for future settlement	667	1,578
Accrued income	3,176	3,006
Taxation recoverable	155	125
Other debtors and prepayments	45	34
	-----	-----
	4,043	4,743
	=====	=====

13 Other Creditors

	2018	2017
	£'000	£'000
Securities purchased for future settlement	1,257	685
Creditors and accruals	1,507	1,354
	-----	-----
	2,764	2,039
	=====	=====

14 Share Capital

	2018		2017
	number of		number of
	shares	£'000	shares
			£'000
Issued, allotted and fully paid ordinary shares of 5 pence each*			
Held outside Treasury			
Beginning of the year	264,499,480	13,225	265,349,480
Ordinary Shares issued out of Treasury	2,050,000	103	-
Ordinary Shares repurchased into Treasury	-	-	(850,000)
	-----	-----	-----
End of the year	266,549,480	13,328	264,499,480
	=====	=====	=====
Held in Treasury*			
Beginning of the year	6,145,000	307	5,295,000
Ordinary Shares issued out of Treasury	(2,050,000)	(103)	-
Ordinary Shares repurchased into Treasury	-	-	850,000
	-----	-----	-----
End of the year	4,095,000	204	6,145,000
	-----	-----	-----
Total share capital	270,644,480	13,532	270,644,480
	=====	=====	=====

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

During the year 2,050,000 ordinary shares (2017: nil) were issued out of Treasury. The proceeds from the issue of ordinary shares of £5,458,000 (2017: nil) was credited to the capital reserve. The total premium received in the year on the issue of ordinary shares of £44,000 (2017: nil) was credited to the share premium account. No ordinary shares were repurchased into Treasury during the year (2017: 850,000 shares repurchased at a cost of £1,724,000).

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 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 £724,970,000 (2017: £673,502,000) and on 266,549,480 (2017: 264,499,480) 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 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, share price, discount control, regulatory, cybercrime and investment management risks. Other risks identified are 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 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, options and futures 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:

	2018 £'000	2017 £'000
Exposure to financial instruments that bear interest		
Long CFDs – exposure less fair value	125,733	90,699
Exposure to financial instruments that earn interest		
Short CFDs – exposure plus fair value	14,003	22,916
Amounts held at futures clearing houses and brokers	2,235	1,386
Fidelity Institutional Liquidity Fund	14,588	11,796
Cash at bank	2,303	1,969
	33,129	38,067
Net exposure to financial instruments that bear interest	92,604	52,632

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:

					2018
	investments at fair value £'000	long exposure to derivative instruments ¹ £'000	debtors ² £'000	cash at bank £'000	total £'000
Currency					
Euro	69,730	64,465	177	–	134,372
US dollar	73,316	–	4,684	39	78,039
Canadian dollar	8,390	–	–	–	8,390
Swiss franc	7,563	–	–	–	7,563
Other foreign currencies	–	7,286	118	–	7,404

UK sterling	545,998	9,685	15,887	2,264	573,834
	-----	-----	-----	-----	-----
	704,997	81,436	20,866	2,303	809,602
	=====	=====	=====	=====	=====

2017

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

1 The exposure to the market of long CFDs and options 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 creditors. The currency profile of these financial liabilities is shown below:

Currency	short exposure to derivative instruments* £'000	other creditors £'000	total £'000
Euro	5,597	–	5,597
Other foreign currencies	–	–	–
UK sterling	8,468	2,764	11,232
	-----	-----	-----
	14,065	2,764	16,829
	=====	=====	=====

2017

short
exposure to

	derivative instruments*	other creditors	total
	£'000	£'000	£'000
Currency			
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
	=====	=====	=====

* 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 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 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 £5,371,000 (2017: £9,003,000) and other creditors of £2,764,000 (2017: £2,039,000).

Counterparty risk

Certain 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 and Derivatives 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 August 2018 £8,451,000 (2017: £5,417,000) was held by the brokers in cash in a segregated collateral account on behalf of the Company, to reduce the credit risk exposure of the Company. This collateral comprised of: Deutsche Bank AG £1,270,000 (2017: nil) held in cash denominated in Euros, HSBC Bank Plc £185,000 (2017: nil) held in cash denominated in UK sterling, and UBS AG £6,996,000 (2017: £5,417,000) held in cash denominated in US dollars. £2,235,000 (2017: £1,386,000), shown as amounts held at futures clearing houses and brokers on the Balance Sheet was held by the Company, in a segregated collateral account, on behalf of the brokers, to reduce the credit risk exposure of the brokers. This collateral comprised of: Goldman Sachs International Ltd £1,600,000 in cash and UBS AG £635,000 in cash (2017:

£1,386,000 held at JPMorgan Chase Bank).

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.

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 August 2018, 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 £232,000 (2017: £132,000). 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 2018, 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 £20,516,000 (2017: £17,232,000). 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 £25,076,000 (2017: £21,062,000).

Other price risk – exposure to investments sensitivity analysis

Based on the investments held and share prices at 31 August 2018, 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 £70,500,000 (2017: £65,397,000). 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 2018, 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 £6,737,000 (2017: £2,545,000). 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 at bank, 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). The table below sets out the Company's fair value hierarchy:

	level 1	level 2	level 3	2018
	£'000	£'000	£'000	total £'000
Financial assets at fair value through profit or loss				
Investments	703,541	–	1,456	704,997
Derivative instrument assets	1,058	2,845	1,036	4,939

	----- 704,599 =====	----- 2,845 =====	----- 2,492 =====	----- 709,936 =====
Financial liabilities at fair value through profit or loss				
Derivative instrument liabilities	----- -	----- (5,371) =====	----- -	----- (5,371) =====
	level 1	level 2	level 3	2017
Financial assets at fair value through profit or loss	£'000	£'000	£'000	total
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) =====

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

	year ended	year ended
	31.08.18	31.08.17
	level 3	level 3
	£'000	£'000
Beginning of the year	8,347	5,860
Purchases at cost	144	-
Sales – proceeds	(10,548)	-
Sales – gains	4,398	-
Investments written off	-	(6)
Transfers into level 3*	1,640	1,599
Movement in investment holding (losses)/gains	(1,489)	894
	----- 2,492 =====	----- 8,347 =====
End of the year		

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

GVC Holdings option

The option was issued to Ladbrokes shareholders following the acquisition of Ladbrokes by GVC Holdings in March 2018. The value of this derivative asset is linked to the outcome of the UK Government review of fixed-odd betting terminals. The valuation at 31st August 2018 is based on the last trade price. At 31st August 2018 its fair value was £1,036,000.

Marwyn Value Investors

Marwyn Value Investors is a closed-ended fund incorporated in the United Kingdom. The fund is highly illiquid and the valuation at 31st August 2018 is based on the indicative bid price in the absence of a last trade price. As at 31st August 2018 its fair value was £1,172,000.

TVC Holdings

TVC Holdings is an unlisted investment holding company incorporated in Ireland. The valuation at 31st August 2018 is based on the last trade price. As at 31st August 2018 its fair value was £284,000.

18 Capital Resources and Gearing

The Company does not have any externally imposed capital requirements. The financial resources of the Company comprise its share capital and reserves, as disclosed in the Balance Sheet above, and any gearing, which is managed by 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 in the Annual Report and in Note 17 above.

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

	2018			
	gross asset exposure		net asset exposure	
	£'000	% ¹	£'000	% ¹
Investments	704,997	97.3	704,997	97.3
Options	1,036	0.1	1,036	0.1
Long CFDs	123,269	17.0	123,269	17.0
Total long exposures before hedges	829,302	114.4	829,302	114.4
Less: Index futures – hedging exposures ²	(42,869)	(5.9)	(42,869)	(5.9)
Long exposures after the netting of hedges	786,433	108.5	786,433	108.5
Short exposures – short CFDs	14,065	1.9	(14,065)	(1.9)
Exposure after the netting of hedges	800,498	110.4	772,368	106.6
Shareholders' funds	724,970		724,970	
Gearing³		gross gearing		net gearing
		10.4%		6.6%

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.

	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		net gearing
		9.1%		0.9%

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

2 Hedging exposures reduce exposure to the market and gearing.

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

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 £6,107,000 (2017: £5,476,000) and fees for non-portfolio management services of £600,000 (2017: £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 £1,083,000 (2017: £967,000) and fees for non-portfolio management services of £100,000 (2017: £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 £139,000 (2017: £128,000). At the Balance Sheet date £7,000 (2017: £25,000) 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 payable to the Directors are given in the Directors' Remuneration Report in the Annual Report. In addition to the fees and taxable benefits disclosed in the Directors' Remuneration Report in the Annual Report. £15,000 (2017: £14,000) of Employers' National Insurance Contributions was also paid by the Company.

20 Alternative Performance Measures

Total return is considered to be an alternative performance measure (as defined in the Glossary of Terms in the Annual Report). NAV total return includes reinvestment of the dividend in the NAV of the Company on the ex-dividend dates. Share price total return includes the reinvestment of the net dividends in the months that the share price goes ex-dividend.

The tables below provide information relating to the NAVs and share prices of the Company, the impact of dividend reinvestments and the total returns for the years ended 31 August 2018 and 31 August 2017.

	Net asset value	Share price
2018		
NAV at 31 August 2017	254.63p	246.50p
NAV at 31 August 2018	271.98p	276.00p
Change in the year	+6.8%	+12.0%
Impact of dividend reinvestments	+1.9%	+2.0%
	-----	-----
Total return for the year	+8.7%	+14.0%
	-----	-----
	Net asset	Share
2017	value	price
NAV at 31 August 2016	217.94p	196.25p
NAV at 31 August 2017	254.63p	246.50p
Change in the year	+16.8%	+25.6%
Impact of dividend reinvestments	+2.3%	+2.5%
	-----	-----
Total return for the year	19.1%	28.1%
	-----	-----

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 31 August 2018 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 2017 and 2018 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 2017 is derived from the statutory accounts for 2017 which have been delivered to the Registrar of Companies. The 2018 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 12 December 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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